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Overprotection and Protection Overlaps in Intellectual Property Law – The Need for Horizontal Fair Use Defences

During the last decades, IP protection has been expanded continuously.¹ New technologies were found eligible for patent protection.² New types of marks have been recognized in trademark law.³ Copyright law is no longer confined to the cultural domain.⁴ In parallel, the exclusive rights of IP owners have been broadened. The TRIPS Agreement provides for a comprehensive portfolio of patent minimum rights.⁵ The WIPO Copyright Treaty added new layers of protection to the standard reached under the Berne Convention.⁶ As a result of protection against dilution, trademark rights have become instruments for the exploitation of brand image.⁷

Enhanced protection, however, gives rise to the question of appropriate counterbalances. Flexible rights are likely to require flexible limitations for at least two reasons. On the one hand, flexible limitations facilitate the task of maintaining a proper balance between protection and competing freedoms within individual protection regimes. On the other hand,

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¹ For an early critical assessment of this broader trend, see J.H. Spoor, *De gestage groei van merk, werk en uitvinding*, Zwolle: Tjeenk Willink 1990.

² This tendency has been particularly strong in US patent law. For instance, see US Supreme Court, 447 U.S. 303 (1980), *Diamond vs. Chakrabarty*, with regard to biotechnology. Cf. G.J. Maier/R.C. Mattson, *State Street Bank ist kein Ausreißer: Die Geschichte der Softwarepatentierung im US-amerikanischen Recht*, GRUR International 2001, p. 677; R.P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, Berkeley Technology Law Journal 14 (1999), p. 577 (587). As to current, more cautious approaches in US patent law, see US Court of Appeals for the Federal Circuit, 545 F.3d 943, 88 U.S.P.Q.2d 1385 (Fed. Cir. 2008), *In re Bernard L. Bilski and Rand A. Warsaw*.

³ Cf. J. Gilson/A. Gilson LaLonde, *Cinnamon Buns, Marching Ducks and Cherry-Scented Racecar Exhaust: Protecting Nontraditional Trademarks*, Trade Mark Reporter 95 (2005), p. 773; K.-H. Fezer, *Eine Theorie der variablen Marke – Zum Markenschutz für Markenbildungskonzeptionen*, GRUR 2005, p. 102.

⁴ With the inclusion of computer programs, technical machine instructions have become part of the subject matter eligible for copyright protection. See Article 10(1) TRIPS and Article 4 WCT. As to the impact of this inclusion on the copyright system, see S.E. Gordon, *The Very Idea! Why Copyright is an Inappropriate Way to Protect Computer Programs*, EIPR 1998, p. 10; A.A. Quaedvlieg, *Auteursrecht op techniek*, Zwolle: Tjeenk Willink 1987; A. Dietz, *Copyright Protection for Computer Programs: Trojan Horse or Stimulus for the Future Copyright System?*, UFITA 110 (1985), p. 57.

⁵ See Article 28 TRIPS. Cf. D. Gervais, *The TRIPS Agreement: Drafting History and Analysis*, 2nd ed., London 2003; C. M. Correa, *Trade-Related Aspects of Intellectual Property Rights – A Commentary on the TRIPS Agreement*, Oxford: Oxford University Press 2007.

⁶ See Articles 11 and 12 WCT on the protection of technological measures and rights management information. Cf. M. Girsberger, *Schutz von technischen Maßnahmen im Urheberrecht: Die WIPO-Internetabkommen und deren Umsetzung in den Vereinigten Staaten, der Europäischen Union und der Schweiz*, Bern: Stämpfli 2007; C. Arlt, *Digital Rights Management Systeme – Der Einsatz technischer Maßnahmen zum Schutz digitaler Inhalte*, München: C.H. Beck 2006; K. Koelman, *Auteursrecht en technische voorzieningen*, Den Haag: SDU 2003; S. Bechtold, *Vom Urheber- zum Informationsrecht: Implikationen des Digital Rights Management*, München: C.H. Beck 2002; P. Wand, *Technische Schutzmaßnahmen und Urheberrecht*, München: C.H. Beck 2001.

⁷ Cf. M.R.F. Senftleben, *The Trademark Tower of Babel – Dilution Concepts in International, US and EC Law*, IIC 40 (2009), p. 45; K.-H. Fezer, *Entwicklungslinien und Prinzipien des Markenrechts in Europa – Auf dem Weg zur Marke als einem immaterialgüterrechtlichen Kommunikationszeichen*, GRUR 2003, p. 457.

flexible limitations can be employed to safeguard breathing space for unauthorized use when it comes to overlaps between different forms of IP protection. If an intellectual creation enjoys cumulative protection in different IP protection systems,⁸ a network of corresponding, flexible limitations ensures that the freedom offered in one system is not eroded through protection granted in another system.

The flexibility required within and across IP protection regimes may be provided by open-ended fair use provisions that allow the courts to develop and adjust IP limitations case-by-case on the basis of abstract criteria. Against this background, the following analysis explores the notion of fair use (I) and identifies factors indicating a need for fair use solutions (II and III) before embarking on a discussion of the situation in copyright (IV), patent (V) and trademark (VI) law. Drawing conclusions, protection overlaps will be considered (VII).

I. Definition

The term ‘fair use’ is often understood as a reference to the fair use doctrine that evolved in US copyright law.⁹ However, it is not the purpose of the present inquiry to clarify whether this particular type of fair use legislation could serve as a model for the horizontal regulation of IP limitations. In the present context, the term ‘fair use’ merely indicates that limitations are regulated in a flexible way. Instead of a closed list of precisely-defined exceptions to exclusive rights, a fair use system rests on abstract criteria allowing the judge to determine whether a given unauthorized use is to be deemed permissible.

While the fair use doctrine in US copyright law complies with this general description of the phenomenon,¹⁰ it constitutes only one particular example of conceivable fair use approaches. The fair use defence may feature less prominently in a system of IP limitations. The regulation of limitations may even rely predominantly on precisely-defined exceptions and still qualify as a fair use system as long as the list of specific exceptions is supplemented with an open-ended clause for the identification of additional types of permissible unauthorized use in the light of the individual circumstances of a given case. For the purposes of the present

⁸ Cf. E. Derclaye/M. Leistner, *Intellectual Property Overlaps: A European Perspective*, Oxford: Hart Publishing 2010; A. Cruquenaire/S. Dussollier (eds.), *Le cumul des droits intellectuels*, Brussels: Larcier 2009.

⁹ Section 107 of the US Copyright Act permits the unauthorized use of copyrighted material for purposes ‘such as criticism, comment, news reporting, teaching [...], scholarship, or research.’ To guide the decision on individual forms of use, four factors are set forth in the provision which shall be taken into account among other considerations that may be relevant in a given case:

- ‘(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.’

¹⁰ The list of purposes referred to in Section 107 of the US Copyright Act is understood as an open, non-exclusive enumeration. See Senate and House Committee Reports, as quoted by L.E. Seltzer, *Exemptions and Fair Use in Copyright – The Exclusive Rights Tensions in the 1976 Copyright Act*, Cambridge (Massachusetts)/London: Harvard University Press 1978, p. 19-20: ‘...since the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts... The bill endorses the purpose and general scope of the judicial doctrine of fair use [...] but there is no disposition to freeze the doctrine in the statute... Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.’

analysis, the term ‘fair use’, thus, broadly refers to some flexible element in the regulation of IP limitations that opens up the system.¹¹

Moreover, fair use need not be equated with use free of charge in the present context. While the US fair use doctrine does not provide for the payment of equitable remuneration, the inclusion of this feature will not be deemed incompatible with the notion of fair use in the following analysis. The payment of compensation enhances the breathing space that can be created in fair use systems.¹² When the permission of unauthorized use seems desirable even though the exemption impacts deeply on the position of the right owner, the payment of equitable remuneration constitutes an important balancing instrument broadening the scope of potential fair use solutions. Therefore, the following analysis includes the consideration of enhanced flexibility that follows from solutions based on compensation payments.¹³

II. Rationale

In copyright theory, the fair use approach is associated with the utilitarian foundation of the Anglo-American copyright tradition perceiving copyright as a prerogative granted to enhance the overall welfare of society by ensuring a sufficient supply of knowledge and information.¹⁴ This theoretical basis only justifies rights strong enough to induce the desired production of intellectual works. Therefore, the exclusive rights of authors deserve individual positive legal enactment.¹⁵ Those forms of use that need not be reserved for the right owner to provide the necessary incentive remain free. Otherwise, rights would be awarded that are unnecessary to achieve the goals of the system. In sum, exclusive rights are thus delineated precisely, while their limitation can be regulated flexibly in open-ended provisions, such as fair use.¹⁶ Oversimplifying the theoretical model underlying common law copyright, it might be said that freedom of use is the rule, rights are the exception.

The opposite constellation – rights the rule, freedom the exception – follows from the natural law underpinning of continental-European *droit d’auteur*. In the natural law theory, the author occupies centre stage.¹⁷ A literary or artistic work is perceived as a materialization of the author’s personality. Accordingly, it is assumed that a bond unites the author with the object

¹¹ For a detailed discussion of different types of fair use legislation, see A. Förster, *Fair Use*, Tübingen: Mohr Siebeck 2008, p. 211-222.

¹² This advantage outweighs the disadvantage of costs arising from the necessity to establish collective licensing bodies and ensure the appropriate distribution of collected compensation payments among right owners.

¹³ This approach is in line with international standards. With regard to the three-step test in copyright law, for instance, it is recognized that the payment of equitable remuneration may be used to reduce an unreasonable prejudice to legitimate interests to a permissible, reasonable level. Cf. M.R.F. Senftleben, *Copyright, Limitations and the Three-Step Test – An Analysis of the Three-Step Test in International and EC Copyright Law*, The Hague/London/New York: Kluwer Law International 2004, p. 125-133.

¹⁴ In this vein, the US Supreme Court, for instance, referred to copyright as an ‘engine of free expression’ in *Harper & Row v. Nation Enterprises*, 471 US 539 (1985), III B.

¹⁵ Cf. A. Strowel, *Droit d’auteur and Copyright: Between History and Nature*, in: B. Sherman/A. Strowel, *Of Authors and Origins*, Oxford: Clarendon Press 1994, p. 235 (241-249); S.P. Calandrillo, *An Economic Analysis of Property Rights in Information: Justifications and Problems of Exclusive Rights, Incentives to Generate Information, and the Alternative of a Government-Run Reward System*, *Fordham Intellectual Property Media and Entertainment Law Journal* 9 (1998), p. 301 (310).

¹⁶ See P.E. Geller, *Must Copyright Be For Ever Caught Between Marketplace and Authorship Norms?*, in: B. Sherman/A. Strowel, *supra* note 15, p. 159 (170); Strowel, *supra* note 15, 250-251.

¹⁷ Cf. B. Edelman, *The Law’s Eye: Nature and Copyright*, in: B. Sherman/A. Strowel, *supra* note 15, p. 79 (82-87); Geller, *supra* note 16, 169-170; Strowel, *supra* note 15, 236-237.

of her creation.¹⁸ Moreover, the author acquires a property right in her work by virtue of the mere act of creation. This has the corollary that nothing is left to the law apart from formally recognizing what is already inherent in the ‘very nature of things’.¹⁹ The author-centrism of the civil law system calls on the legislator to safeguard rights broad enough to concede to authors the opportunity to profit from the use of their self-expression, and to bar factors that might stymie their exploitation. In consequence, civil law copyright systems recognize flexible, broad exclusive rights. Exceptions, by contrast, are defined narrowly and often interpreted restrictively.²⁰

While this analysis on the basis of copyright theory may explain the evolution of fair use in common law jurisdictions, it fails to provide justifications for fair use. This is particularly true with regard to the ostensible antagonism between author centrism and flexible rights in civil law jurisdictions, and utilitarianism and flexible limitations in common law jurisdictions.²¹ The particular advantage of fair use can hardly be derived from reflections on differences in legal theory. The merits of fair use come to the fore, however, once the costs of IP protection are factored into the equation. Intellectual property rights restrict fundamental freedoms, particularly freedom of expression and freedom of competition.²² From an economic perspective, it is to be considered that IP monopolies, while spurring investment in new creations, also impede follow-on innovation requiring the use of pre-existing, protected material. Hence, there is a delicate balance inherent in all IP protection regimes.²³

With regard to the maintenance of this balance, fair use has a crucial role to play. In advanced IP protection systems offering flexible, broad exclusive rights, it is wise to employ fair use as a counterbalance. In this way, the risk of counterproductive overprotection can be minimized. An IP regime with only a limited number of narrow exclusive rights, by contrast, does not necessarily require an open-ended fair use defence. In the absence of flexible rights, overprotection is less likely. Precisely-defined exceptions may be sufficient.

¹⁸ Cf. E. Ulmer, *Urheber- und Verlagsrecht*, Berlin/Heidelberg/New York: Springer 1980, p. 110-111. See H. Desbois, *Le droit d’auteur en France*, 2nd edn. – mise à jour 1973, Paris: Dalloz 1978, p. 538.

¹⁹ See Desbois, supra note 18, 538; Ulmer, supra note 18, 105-106.

²⁰ Cf. F.W. Grosheide, *Auteursrecht op Maat*, Deventer: Kluwer 1986, p. 2; Geller, supra note 16, 170; Strowel, supra note 15, 249-250. For a recent confirmation of this questionable dogma, see Förster, supra note 11, 182-184. Cf. ECJ, July 16, 2009, case C-5/08, *Infopaq International/Danske Dagblades Forening*.

²¹ From a historical perspective, this antagonism may not be overestimated anyway. See J.C. Ginsburg, *A Tale of Two Copyrights: Literary Property in Revolutionary France and America*, in: B. Sherman/A. Strowel, *Of Authors and Origins*, Oxford: Clarendon Press 1994, p. 131 (133).

²² See E.J. Dommering, *De achtervolgving van Prometheus – over vrijheid en bezit van informatie*, Amsterdam: Otto Cramwinckel 2008; W. McGeeveran, *Four Free Speech Goals for Trademark Law*, *Fordham Intellectual Property, Media and Entertainment Law Journal* 18 (2008), 1205-1227; C. Geiger, ‘Constitutionalising’ Intellectual Property Law? The Influence of Fundamental Rights on Intellectual Property in the European Union, *IIC* 37 (2006), p. 371; A. Strowel/F. Tulkens/D. Voorhoof (eds.), *Droit d’auteur et liberté d’expression*, Brussels: Editions Larcier 2006; P.B. Hugenholtz, ‘Copyright and Freedom of Expression in Europe’, in: N. Elkin-Koren/N.W. Netanel (eds.), *The Commodification of Information*, The Hague/London/Boston: Kluwer 2002, p. 239; Th. Dreier, *Balancing Proprietary and Public Domain Interests: Inside or Outside of Proprietary Rights?*, in: R. Dreyfuss/D. Leenheer-Zimmerman/H. First (eds.), *Expanding the Boundaries of Intellectual Property. Innovation Policy for the Knowledge Economy*, Oxford: Oxford University Press 2001, 295-316; S. Macciachini, *Urheberrecht und Meinungsfreiheit*, Bern: Stämpfli 2000; Y. Benkler, ‘Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain’, *New York University Law Review* 74 (1999), p. 355; N.W. Netanel, *Copyright and a Democratic Civil Society*, *Yale Law Journal* 106 (1996), p. 283.

²³ Cf. W.N. Landes/R.A. Posner, *The Economic Structure of Intellectual Property Law*, Harvard: Harvard University Press 2003. With regard to copyright law, see from the same authors: W.N. Landes/R.A. Posner, *An Economic Analysis of Copyright Law*, *The Journal of Legal Studies* 18 (1989), p. 325.

Accordingly, the fair use discussion does not concern the question whether freedom of use should be the rule, and protection the exception. Instead, it concerns the question of appropriate balancing tools. Flexible rights necessitate flexible limitations. This becomes obvious in times of new technological developments that impact on the IP system. In these times of change, broad exclusive rights are likely to absorb and restrict new possibilities of use even though this may be undesirable from the perspective of social, cultural or economic needs.²⁴ In this situation, abstract fair use factors ensure a fast reaction. They allow the courts to re-establish a proper balance between freedom and protection. A closed system of narrowly-defined limitations, by contrast, is likely to react too slowly to unforeseen challenges. It requires the intervention of the legislator and the development of new, specific exceptions. This process of law making can hardly keep pace with rapid technological advances. As a result, the balance between freedom and protection will be lost.

The Internet, for example, keeps posing challenges to copyright law. In this situation, fair use legislation renders the protection system capable of coping with the need for constant reconsideration and recalibration of the balance between rights and freedoms. US courts can rely on the US fair use doctrine, for example, to deal with enhanced search engine services²⁵ and user-created content.²⁶ The Ninth Circuit Court of Appeals concluded with regard to the use of image thumbnails in Google search services that

‘the significantly transformative nature of Google’s search engine, particularly in light of its public benefit, outweighs Google’s superseding and commercial uses of the thumbnails in this case. In reaching this conclusion, we note the importance of analyzing fair use flexibly in light of new circumstances.’²⁷

In the absence of a flexible fair use defence, initiatives in the EC rather focus on amendments to copyright legislation. In Germany, the District Court of Hamburg, also dealing with Google’s image search service, explicitly recognized that search engines were of

‘essential importance for structuring the decentralised architecture of the world wide web, localising widely scattered contents and knowledge, and therefore, ultimately, for the functioning of a networked society.’²⁸

²⁴ With regard to the critical assessment of broad IP protection, see K. Assaf, *Der Markenschutz und seine kulturelle Bedeutung*, GRUR Int. 2009, p. 1; G. Mazziotti, *EU Digital Copyright Law and the End-User*, Berlin/Heidelberg: Springer 2008; O. Depenheuer/K.N. Peifer (eds.), *Geistiges Eigentum: Schutzrecht oder Ausbeutungstitel?*, Berlin/Heidelberg: Springer 2008; R.M. Hilty, *Sündenbock Urheberrecht?*, in: A. Ohly/D. Klippel (eds.), *Geistiges Eigentum und Gemeinfreiheit*, Tübingen: Mohr Siebeck 2007, p. 111; R.M. Hilty/A. Peukert, *Interessenausgleich im Urheberrecht*, Baden-Baden: Nomos 2004; C. Geiger, *Droit d’auteur et droit du public à l’information, approche de droit comparé*, Paris: Litec 2004; D. Kröger, *Informationsfreiheit und Urheberrecht*, München: C.H. Beck 2002; Th. Hoeren, *Urheberrecht in der Informationsgesellschaft*, GRUR 1997, p. 866; R. Cooper Dreyfuss, *We Are Symbols and Inhabit Symbols, so Should we be Paying Rent? Deconstructing the Lanham Act and Rights of Publicity*, Columbia-VLA Journal of Law & Arts 20 (1996), p. 123.

²⁵ See US Court of Appeals for the Ninth Circuit, May 16, 2007, *Perfect 10, Inc. vs. Amazon.com*, Fd 3d.

²⁶ See United States District Court Southern District of New York, September 8, 2008, *Warner Bros. and J.K. Rowling vs. RDR Books*, 07 Civ. 9667 (RPP). Cf. the case comment by A.J. Sanders, *EIPR* 2009, p. 45.

²⁷ See US Court of Appeals for the Ninth Circuit, *supra* note 25, para. 12.

²⁸ See Landgericht Hamburg, September 26, 2008, case no. 308 O 248/07, section B.I.6.d., online available at http://www.openjur.de/u/30461-308_o_248-07.html.

However, in spite of this ‘esteem for search engine services’, the Court did not feel in a position to interpret the German quotation right extensively to exempt the use of thumbnails in the image search system. As the right of quotation had been designed with an eye to use under different circumstances, the Court felt that it was the task of the legislator to intervene and reconcile the interests of authors and right owners with the strong public interest in access to graphical online information and the economic interests of search engine providers.²⁹ In the absence of an open-ended fair use provision, the Court was paralyzed by an inflexible limitation infrastructure.

III. Hypothesis

The central advantage of fair use, therefore, is enhanced flexibility in the area of IP limitations to maintain an appropriate balance between freedom of use and protection of right owners. This counterbalance is particularly needed in IP protection systems offering flexible, broad exclusive rights. In particular, it becomes crucial when rapid technological developments impact on IP protection regimes and disturb their equilibrium between rights and limitations.

Given the continuous expansion of IP protection during the last decades, and the constant impact of new technologies, it can be hypothesized that these conditions for the introduction of fair use defences are fulfilled. Against this background, an attempt will be made to show that fair use defences are required in several branches of protection (IV-VI). On the basis of this analysis, it will finally be considered whether a universal fair use infrastructure is needed to safeguard the inner consistency of the IP system in case of protection overlaps (VII).

IV. Copyright

Flexible fair use defences can be found in the copyright legislation of many countries.³⁰ If the adoption of fair use elements is more than a relict of the Anglo-American copyright tradition, it should be possible to show that the identified factors justifying a fair use approach are fulfilled in the case of the copyright system (1). Subsequently, it must be asked whether national fair use legislation complies with international copyright standards (2). To emphasize the current need for fair use, the shortcomings of restrictive EC legislation will finally be considered (3) before drawing conclusions (4).

1. Need for Fair Use

With regard to flexible, broad exclusive rights, a trend towards comprehensive entitlements can be inferred from developments at the international level. It was one of the major accomplishments of the 1967 Stockholm Conference for the Revision of the Berne Convention to formally recognize a general right of reproduction in Article 9(1) BC.³¹ In

²⁹ See Landgericht Hamburg, *ibid.*, section B.I.6.d. Cf. Oberlandesgericht Jena, GRUR-RR 2008, p. 223 (224). With regard to the scope of the quotation right under the German Copyright Act, see Th. Dreier, *Thumbnails als Zitate? – Zur Reichweite von § 51 UrhG in der Informationsgesellschaft*, in: U. Blaurock/J. Bornkamm/C. Kirchberg (eds.), *Festschrift für Achim Krämer zum 70. Geburtstag*, Berlin: De Gruyter 2009, p. 225.

³⁰ Moreover, new systems are established. With regard to the introduction of fair use in Israel, see O. Fischman Afori, *An Open Standard ‘Fair Use’ Doctrine: A Welcome Israeli Initiative*, EIPR 2008, p. 85.

³¹ The recognition of a general right aimed at redressing the anomaly that the Convention did not reflect the fundamental position held by the right of reproduction, whereas broad reproduction rights had become widespread in national legislation. See Doc. S/1, Records of the Intellectual Property Conference of Stockholm June 11 to July 14, 1967, Geneva: WIPO 1971, p. 81 and p. 111-112.

Article 8 WCT, a general right of communication to the public has later been added to this portfolio of flexible, broad rights.³² Further grants of protection, such as public performance, translation and adaptation rights, complement these general rights.³³

An additional factor to be considered is the openness of the copyright system with regard to subject matter eligible for protection. The Berne Convention contents itself with the clarification that the notion encompasses ‘every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression’, and provides an illustrative list of subject matter ranging from ‘books, pamphlets and other writings’ to ‘works relative to geography, topography, architecture or science’.³⁴ Article 10(1) TRIPS and Article 4 WCT add computer programs. In most national jurisdictions, elastic tests of ‘originality’ are applied to identify the subject matter of copyright protection. In consequence, the doors to copyright protection are wide open.

Therefore, it is justified to speak of a flexible, broad grant of protection in copyright law – both in terms of exclusive rights and subject matter of protection. In addition, copyright law is constantly challenged by new technological developments. The fast development of online technology and corresponding business models requires continuous recalibrations of the protection system. File-sharing platforms, search engine services, user-created content and the digitization of cultural material can serve as examples of current phenomena requiring the reconsideration of the scope of protection.³⁵ Hence, both factors identified above – flexible, broad protection and new technological developments – weigh in favour of fair use in the case of copyright law.

2. Permissibility

International copyright law reflects the need for flexible solutions in the field of limitations. Article 9(2) BC offers national law makers the freedom

‘...to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.’

This three-step test – certain special cases (step 1), no conflict with a normal exploitation (step 2), no unreasonable prejudice to legitimate interests (step 3) – also made its way into

³² This general right is without prejudice to the specific rights recognized earlier in the Berne Convention. See Articles 11(1)(ii), 11bis(1)(i) and (ii), 11ter(1)(ii), 14(1)(ii) and 14bis(1) BC.

³³ See Articles 11(1)(i), 11ter(1)(i), 11bis(1)(iii), Article 8 and Articles 12, 14 BC.

³⁴ See Article 2(1) BC.

³⁵ Cf. N. Helberger/L. Guibault/E.H. Janssen/N.A.N.M. Van Eijk/C. Angelopoulos/J.V.J. Van Hoboken, *Legal Aspects of User Created Content* (2009), online available at <http://ssrn.com/abstract=1499333>; P.B. Hugenholtz, *De Google Book-schikking: de wereldliteratuur gelicentieerd*, *Nederlands Juristenblad* 2009, p. 2145; J. Edström/H. Nilsson, *The Pirate Bay Verdict – Predictable, and Yet*, *EIPR* 2009, p. 483; M. Elferink/A. Ringnalda, *Digitale ontsluiting van historische archieven en verweesde werken*, Amstelveen: deLex 2009; K. Welp, *Die Auskunftspflicht von Access-Providern nach dem Urheberrechtsgesetz*, München: C.H. Beck 2009; J.V.J. Van Hoboken, *De aansprakelijkheid van zoekmachines. Uitzondering zonder regels of regels zonder uitzondering?*, *Computerrecht* 2008, p. 15; S. van Gompel, *Unlocking the Potential of Pre-Existing Content: How to Address the Issue of Orphan Works in Europe?*, *IIC* 38 (2007), p. 669; D.B. Sherman, *Cost and Resource Allocation Under the Orphan Works Act of 2006: Would the Act Reduce Transaction Costs, Allocate Orphan Works Efficiently, and Serve the Goals of Copyright Law?*, *Virginia Journal of Law & Technology* 12(2007), p. 13.

Article 13 TRIPS and played a decisive role during the negotiations of the WIPO ‘Internet’ Treaties.³⁶ In Article 10(1) WCT, it paved the way for agreement on limitations of the rights newly granted under the WIPO Copyright Treaty, including the right of online making available as part of the general right of communication to the public.³⁷

A line between the international three-step test and open-ended fair use provisions, such as the US fair use doctrine, can easily be drawn. The prohibition of a conflict with a normal exploitation, for instance, recalls the fourth factor of the US fair use doctrine ‘effect of the use upon the potential market for or value of the copyrighted work.’³⁸ The drafting history of the three-step test confirms that the flexible formula has its roots in the Anglo-American copyright tradition.³⁹ In the context of the WIPO Copyright Treaty, it has moreover been clarified that the international test, indeed, constitutes a means of enabling limitations and enhancing the flexibility of the copyright system:

‘It is understood that the provisions of Article 10 permit Contracting Parties to carry forward and appropriately extend into the digital environment limitations and exceptions in their national laws which have been considered acceptable under the Berne Convention. Similarly, these provisions should be understood to permit Contracting Parties to devise new exceptions and limitations that are appropriate in the digital network environment.’⁴⁰

At the national level, the three-step test has been used in this enabling sense,⁴¹ for instance, in decisions of the German Federal Court of Justice. In a 1999 case concerning the Technical

³⁶ With regard to the evolution of this ‘family’ of copyright three-step tests in international copyright law, see Senftleben, *supra* note 13, 43-98; N. Dittrich, *Der Dreistufentest*, in: N. Dittrich (ed.), *Beiträge zum Urheberrecht VIII*, Wien 2005, p. 63; J. Bornkamm, *Der Dreistufentest als urheberrechtliche Schrankenbestimmung – Karriere eines Begriffs*, in: H.-J. Ahrens/J. Bornkamm/W. Gloy/J. Starck/J. von Ungern-Sternberg, *Festschrift für Willi Erdmann zum 65. Geburtstag*, Köln/Berlin/Bonn/München: Carl Heymanns 2002, p. 29.

³⁷ As a consequence, the three-step test of Article 10(1) WCT is the central threshold for limitations on the right of making available online. As to the debate in the context of the WIPO ‘Internet’ Treaties, see Senftleben, *supra* note 13, 96-98; M. Ficsor, *The Law of Copyright and the Internet – The 1996 WIPO Treaties, their Interpretation and Implementation*, Oxford: Oxford University Press 2002; J. Reinbothe/S. Von Lewinski, *The WIPO Treaties 1996 – Commentary and Legal Analysis*, Butterworths 2002.

³⁸ Cf. Section 107 of the US Copyright Act. With regard to the application of fair use analyses concerning the fourth factor in the context of the three-step test, see Senftleben, *supra* note 13, 184-187.

³⁹ See observation by the United Kingdom, Doc. S/13, Records of the Intellectual Property Conference of Stockholm June 11 to July 14, 1967, Geneva: WIPO 1971, p. 630. Cf. Senftleben, *supra* note 13, p. 47-52.

⁴⁰ See Agreed Statement Concerning Article 10 of the WIPO Copyright Treaty.

⁴¹ In fact, the three-step test has been understood in the sense of an ‘enabling’ provision allowing countries to satisfy their individual social, cultural and economic needs already at the time when the test was first developed and incorporated in Article 9(2) BC. At the 1967 Stockholm Conference, the test was perceived as a flexible framework, within which national legislators would enjoy the freedom of safeguarding national limitations and satisfying the aforementioned domestic needs. See Doc. S/1, Records of the Intellectual Property Conference of Stockholm June 11 to July 14, 1967, Geneva: WIPO 1971, p. 81. Cf. A. Kur, *Of Oceans, Islands, and Inland Water – How Much Room for Exceptions and Limitations Under the Three-Step Test?*, Max Planck Institute for Intellectual Property, Competition & Tax Law Research Paper Series No. 08-04 (2008), online available at <http://ssrn.com/abstract=1317707>; C. Geiger, *The Three-Step Test, a Threat to a Balanced Copyright Law?*, IIC 37 (2006), p. 683 (694-696); M.R.F. Senftleben, *Grundprobleme des urheberrechtlichen Dreistufentests*, GRUR International 2004, p. 200 (206-207). For an overview of national case law applying the three-step test as a flexible standard, see J. Griffiths, *The ‘Three-Step Test’ in European Copyright Law – Problems and Solutions*, Intellectual Property Quarterly 2009, p. 489, online available at <http://ssrn.com/abstract=1476968>. For a proposal to use the three-step test as an instrument to delineate the exclusive rights of copyright owners, see D. Gervais, *Towards a New Core International Copyright Norm: The Reverse Three-Step Test*, Marquette Intellectual Property Law Review 9 (2005), p. 1.

Information Library Hannover, the Court underlined the public interest in unhindered access to information. Accordingly, it offered support for the Library's practice of copying and dispatching scientific articles on request by single persons and industrial undertakings.⁴² The legal basis of this practice was the statutory limitation for personal use in § 53 of the German Copyright Act. Under this provision, the authorized user need not necessarily produce the copy herself but is free to ask a third party to make the reproduction on her behalf. The Court admitted that the dispatch of copies came close to a publisher's activity.⁴³ Nonetheless, it refrained from putting an end to the library practice by assuming a conflict with a work's normal exploitation. Instead, the Court deduced an obligation to pay equitable remuneration from the three-step test, and enabled the continuation of the information service in this way.⁴⁴

In a 2002 decision concerning the scanning and storing of press articles for internal e-mail communication in a private company, the Court gave a further example of its flexible approach to the three-step test. It held that digital press reviews had to be deemed permissible under § 49(1) of the German Copyright Act just like their analogue counterparts, if the digital version – in terms of its functioning and potential for use – essentially corresponded to traditional analogue products.⁴⁵ To overcome the problem of an outdated wording of § 49(1) that seemed to indicate the limitation's confinement to press reviews on paper,⁴⁶ the Court stated that, in view of new technical developments, a copyright limitation may be interpreted extensively.⁴⁷ Taking these considerations as a starting point, the Court arrived at the conclusion that digital press reviews were permissible, if articles were included in graphical format without offering additional functions, such as a text collection and an index. This extension of the analogue press review exception to the digital environment, the Court maintained, was in line with the three-step test.⁴⁸

Hence, the test can be used to enable limitations and enhance flexibility in copyright law. National legislation adopting a fair use approach, however, goes beyond the described court decisions. It allows the courts to create new limitations on the basis of abstract factors instead of entrusting them merely with the flexible interpretation of pre-defined, specific exceptions. In other words, national fair use legislation 'institutionalizes' the function of enabling limitations which the international three-step test has because of its open-ended wording. The

⁴² See German Federal Court of Justice (Bundesgerichtshof), February 25, 1999, case I ZR 118/96, *Juristenzeitung* 1999, p. 1000, with case comment by H. Schack. For an English description of the case, see Senftleben, *supra* note 13, p. 206-208.

⁴³ See Bundesgerichtshof, *ibid.*, p. 1004.

⁴⁴ See Bundesgerichtshof, *ibid.*, p. 1005-1007. Cf. P. Baronikians, *Kopienversand durch Bibliotheken – rechtliche Beurteilung und Vorschläge zur Regelung*, *Zeitschrift für Urheber- und Medienrecht* 1999, p. 126. In the course of subsequent amendments to the Copyright Act, the German legislator modelled a new copyright limitation on the Court's decision. § 53a of the German Copyright Act goes beyond the court decision by including the dispatch of digital copies in graphical format.

⁴⁵ See German Federal Court of Justice (Bundesgerichtshof), July 11, 2002, case I ZR 255/00, *GRUR* 2002, p. 963; *Juristenzeitung* 2003, p. 473, with case comment by Th. Dreier. Cf. Th. Hoeren, *Pressespiegel und das Urheberrecht*, *GRUR* 2002, p. 1022.

⁴⁶ § 49(1) of the German Copyright Act, as in force at that time, referred to 'Informationsblätter'.

⁴⁷ See Bundesgerichtshof, *ibid.*, p. 966-966.

⁴⁸ See Bundesgerichtshof, *ibid.*, p. 966-967. The Court referred to the three-step test of Article 5(5) of the EC Copyright Directive 2001/29. The EC three-step test enshrined in this provision, however, does not deviate from the international three-step test.

abstract criteria of the three-step test may be used as a model for national fair use factors in this context.⁴⁹

Nonetheless, doubt has been cast upon the permissibility of fair use legislation on the grounds that a national fair use system could not be qualified as a ‘certain special case’ in the sense of the three-step test.⁵⁰ This counterargument is based on the three-step tests of Article 13 TRIPS and Article 10(2) WCT. In contrast to the aforementioned Article 9(2) BC and Article 10(1) WCT, these tests do not primarily serve as a basis for national limitations. Article 13 TRIPS and Article 10(2) WCT rather constitute additional safeguards seeking to ensure that all kinds of copyright limitations keep within the limits of the three-step test.⁵¹ Interpreting the TRIPS test, however, the WTO Panel reporting on Section 110(5) of the US Copyright Act did not endorse the view that fair use, by definition, was incompatible with the requirement of ‘certain special cases’. Instead, the Panel followed a more cautious approach:

‘However, there is no need to identify explicitly each and every possible situation to which the exception could apply, provided that the scope of the exception is known and particularised. This guarantees a sufficient degree of legal certainty.’⁵²

In this way, the Panel left room for national copyright laws providing for fair use. Legal certainty is not necessarily an exclusive task of the legislator. It may be divided between law makers and judges. In fair use systems, the degree of legal certainty need not be lower than in systems with specific, statutory limitations. The open factors constituting the fair use criteria allow the courts to determine ‘certain special cases’ of permissible unauthorized use in the light of the individual circumstances of a given case. With every court decision, a further ‘special case’ becomes known, particularized and thus ‘certain’ in the sense of the three-step test. A sufficient degree of legal certainty follows from established case law instead of

⁴⁹ As to the application of the three-step test criteria in the framework of a fair use weighing process, see K.J. Koelman, *Fixing the Three-Step Test*, EIPR 2006, p. 407. However, see also the conclusions drawn by Griffiths, *supra* note 41, who doubts that the three-step test offers an appropriate basis for fair use provisions.

⁵⁰ As to the debate on the impact of the three-step test on open-ended limitations, such as the US fair use doctrine, cf. Förster, *supra* note 11, 191-201; Senftleben, *supra* note 13, 133-137 and 162-168; Bornkamm, *supra* note 36, 45-46; H. Cohen Jehoram, *Restrictions on Copyright and their Abuse*, EIPR 2005, p. 359; S. Ricketson, *The three-step test, deemed quantities, libraries and closed exceptions*, Centre for Copyright Studies 2003, p. 147-154; M.R.F. Senftleben, *Beperkingen à la carte: Waarom de Auteursrechttrichtlijn ruimte laat voor fair use*, AMI 2003, p. 10; M. Leaffer, *The Uncertain Future of Fair Use in a Global Information Marketplace*, Ohio State Law Journal 62 (2001), p. 849; R. Okediji, *Toward an International Fair Use Doctrine*, Columbia Journal of Transnational Law 39 (2000), p. 75 (116-130); J.E. Cohen, *WIPO Copyright Treaty Implementation in the United States: Will Fair Use Survive?*, EIPR 1999, p. 236; T. Newby, *What’s Fair Here is not Fair Everywhere: Does the American Fair Use Doctrine Violate International Copyright Law?*, Stanford Law Review 1999, p. 1633.

⁵¹ For a discussion of the different functions of the three-step test, and the difference between Articles 9(2) BC and 10(1) WCT on the one hand, and Articles 13 TRIPS and 10(2) WCT on the other, see Senftleben, *supra* note 13, 118-125.

⁵² See WTO Document WT/DS160/R, online available at www.wto.org, para. 6.108. For comments on the report, see M.R.F. Senftleben, *Towards a Horizontal Standard for Limiting Intellectual Property Rights? – WTO Panel Reports Shed Light on the Three-Step Test in Copyright Law and Related Tests in Patent and Trademark Law*, IIC 37 (2006), p. 407; M. Ficsor, *How Much of What? The Three-Step Test and Its Application in Two Recent WTO Dispute Settlement Cases*, RIDA 192 (2002), p. 111; J. Oliver, *Copyright in the WTO: The Panel Decision on the Three-Step Test*, Columbia Journal of Law & the Arts 25 (2002), p. 119; D.J. Brennan, *The Three-Step Test Frenzy – Why the TRIPS Panel Decision might be considered Per Incuriam*, Intellectual Property Quarterly 2002, p. 213; J. Ginsburg, *Toward Supranational Copyright Law? The WTO Panel Decision and the “Three-Step Test” for Copyright Exceptions*, RIDA 2001, p. 13; P.B. Hugenholtz, *De wettelijke beperkingen beperkt. De WTO geeft de driestappentoets tanden*, Tijdschrift voor Auteurs-, Media- en Informatierecht (AMI) 2000, p. 197.

detailed legislation. For instance, a sufficient degree of legal certainty can be attained in a system with a long-standing fair use tradition, such as the US copyright system.⁵³

Moreover, it is to be recalled that flexible law making in the field of copyright limitations is a particular feature of the Anglo-American copyright tradition. At the international level, a WTO Panel can be expected to take into account both the continental-European and the Anglo-American tradition of copyright law. The Panel's formula of 'a sufficient degree of legal certainty' can thus be understood to ensure that not only precisely-defined civil law exceptions but also common law fair use limitations are capable of passing the test of 'certain special cases'. Otherwise, an entire tradition of legal thinking would be discredited and declared incompatible with international standards.

In national systems switching from a closed list of statutory exceptions to an open-ended fair use approach, the required degree of legal certainty can be secured by applying case law established under the old system as a basis of the new fair use system. In mixed systems combining several statutory exceptions with an open fair use clause, the listed statutory exceptions can be regarded as examples of permissible fair use that can serve as a reference point for the courts. Considering the standard set forth by the WTO Panel, international copyright law, therefore, does not preclude any variant of fair use. With the open-ended factors of special cases, normal exploitation, legitimate interests and unreasonable prejudice, the international three-step test itself can be perceived as a source of inspiration for flexible law making in the field of copyright limitations rather than an obstacle to the introduction of national fair use systems.

3. EC Worst Case Scenario

In the current online environment, more flexibility in the field of copyright limitations is a legislative necessity rather than an interpretative option. From an economic perspective, the web 2.0, with its advanced search engines, interactive platforms and various forms of user-generated content, creates a parallel universe of traditional content providers relying on copyright protection, and emerging internet industries whose further development depends on robust copyright limitations. In particular, the newcomers in the online market – social networking sites, video forums and virtual worlds – promise a remarkable potential for economic growth that already attracted the attention of the OECD.⁵⁴ Against this background, it is advisable to introduce fair use elements.⁵⁵

The inefficiency of systems ignoring the merits of flexible copyright limitations can currently be observed in the EC. The adaptation of EC copyright law to the digital environment has led

⁵³ In this sense already Senftleben, *supra* note 13, 162-168. Cf. B. Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, University of Pennsylvania Law Review 156 (2008), p. 549. However, see the critical comments by Förster, *supra* note 11, 197-201, on the unrestricted openness of the US system. With regard to the predictability of fair use decisions, see also D. Nimmer, 'Fairest of Them All' and Other Fairy Tales of Fair Use, *Law and Contemporary Problems* 66 (2003), p. 263.

⁵⁴ See OECD, *Participative Web: User-Created Content*, document DSTI/ICCP/IE(2006)7/Final, dated April 12, 2007, online available at <http://213.253.134.43/oecd/pdfs/browseit/9307031E.PDF>. Cf. Th. Dreier, *Primär- und Folgemärkte*, in: G. Schricker/Th. Dreier/A. Kur, *Geistiges Eigentum im Dienst der Innovation*, Baden-Baden: Nomos 2001, p. 51; C. Geiger, *Die Schranken des Urheberrechts als Instrumente der Innovationsförderung – Freie Gedanken zur Ausschließlichkeit im Urheberrecht*, GRUR International 2008, p. 459.

⁵⁵ See M.R.F. Senftleben, *Fair Use in The Netherlands - A Renaissance?*, *Tijdschrift voor auteurs, media en informatierecht (AMI)* 2009, p. 1, online available at: <http://ssrn.com/abstract=1563986>.

to a legislative framework that imposes a heavy burden on users of copyrighted material. Elements of both traditions of copyright law have been combined in the most unfortunate way. In the Copyright Directive 2001/29, paragraphs 1, 2, 3 and 4 of Article 5 set forth a closed catalogue of exceptions. This enumeration is in line with the continental-European copyright tradition. The listed exceptions, however, are subject to a three-step test laid down in paragraph 5.⁵⁶ This inclusion of a provision with open-ended criteria recalls the Anglo-American copyright tradition.⁵⁷ However, the interplay between the two elements – the closed catalogue and the open three-step test – is regulated as follows:

‘The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.’⁵⁸

This approach, inevitably, leads to a dilemma. If anything, a closed list of precisely-defined exceptions has the advantage of enhanced legal certainty.⁵⁹ This potential advantage, however, is beyond reach under the current EC system. If national legislation adopts and further specifies exceptions from the EC catalogue, these specific national exceptions may still be challenged on the grounds that they are incompatible with the EC three-step test. In other words, national exceptions that are already embedded in an inflexible national framework may further be restricted by invoking the three-step test. On the one hand, national copyright exceptions are thus straitjacketed. Their validity is hanging by the thread of compliance with the abstract criteria of the EC three-step test. On the other hand, the test itself is deprived of the above-described enabling function which characterizes the international three-step test. The EC test may be invoked to further restrict national exceptions. However, it cannot be employed by the courts to create new, additional forms of permitted unauthorized use. Hence, it is impossible to realize the central advantage of flexibility that is inherent in open norms with abstract criteria.⁶⁰

⁵⁶ As to the drafting history of this hybrid framework for copyright exceptions, see M. Hart, *The Proposed Directive for Copyright in the Information Society: Nice Rights, Shame about the Exceptions*, EIPR 1998, p. 169; P.B. Hugenholtz, *Why the Copyright Directive is Unimportant, and Possibly Invalid*, EIPR 2000, p. 499; D.J.G. Visser, *De beperkingen in de Auteursrechtlijn*, Tijdschrift voor auteurs-, media en informatierecht 2001, p. 9; F. Bayreuther, *Beschränkungen des Urheberrechts nach der neuen EU-Urheberrechtsrichtlinie*, Zeitschrift für Urheber- und Medienrecht 2001, p. 828; J. Reinbothe, *Die EG-Richtlinie zum Urheberrecht in der Informationsgesellschaft*, GRUR International 2001, p. 733.

⁵⁷ As pointed out, supra note 38, a line between the criteria of the three-step test and open fair use factors can easily be drawn. The criterion of ‘no conflict with a normal exploitation’, for instance, resembles the fourth fair use factor ‘effect of the use upon the potential market for or value of the copyrighted work’.

⁵⁸ See Article 5(5) of the Copyright Directive 2001/29/EC.

⁵⁹ Cf. H. Cohen Jehoram, *Fair use – die ferne Geliebte*, Tijdschrift voor auteurs-, media en informatierecht 1998, p. 174, *Implementatie van de Auteursrechtlijn – De stille strijd tegen een spookrijder*, Nederlands Juristenblad 2002, p. 1690, *Nu de gevolgen van trouw en ontrouw aan de Auteursrechtlijn voor fair use, tijdelijke reproductie en driestappentoets*, Tijdschrift voor auteurs-, media en informatierecht 2005, p. 153, *Wie is bang voor de driestappentoets in de Auteursrechtlijn?*, in: N.A.N.M. van Eijk/P.B. Hugenholtz (eds.), *Dommering-bundel*, Amsterdam: Otto Cramwinckel 2008, p. 57.

⁶⁰ Cf. M.R.F. Senftleben, *Fair Use in the Netherlands – a Renaissance?*, Tijdschrift voor auteurs-, media- en informatierecht 2009, p. 1, online available at <http://ssrn.com/abstract=1563986>; Griffiths, supra note 41, 495; Geiger, supra note 41, 683; K.J. Koelman, *De nationale driestappentoets*, Tijdschrift voor auteurs-, media en informatierecht 2003, p. 6. The restrictive nature and freezing effect of the EC copyright three-step test has been confirmed by the ECJ, July 16, 2009, case C-5/08, *Infopaq/Danske Dagblades Forening*. The Court pointed out that the precisely-defined exception of Article 5(1) of the EC Copyright Directive, in addition, had to satisfy the criteria of the three-step test laid down in Article 5(5).

In consequence, the current EC system provides neither sufficient flexibility for copyright limitations nor sufficient legal certainty for users of copyrighted material. It combines the two disadvantages of the Anglo-American and the continental-European approach. The corrosive effect of the hybrid EC concept can currently be observed in the Netherlands. Dutch courts applied the three-step test already prior to the Copyright Directive.⁶¹ On the one hand, the adoption and implementation of the Directive led to more frequent references to the three-step test that are made to confirm and strengthen findings equally following from domestic rules.⁶² This way of applying the three-step test has little impact on the Dutch catalogue of statutory exceptions. On the other hand, however, the Directive inspired a line of decisions that use the three-step test to override the closed Dutch system of precisely-defined user privileges.⁶³

In a decision of June 25, 2008, the District Court of The Hague, for instance, invoked the three-step test in a case concerning the payment of equitable remuneration for private copying activities. In this context, the Court devoted attention to the question of use of an illegal source as a basis for private copying.⁶⁴ The detailed regulation of private copying in Article 16c of the Dutch Copyright Act does not contain any indication to the effect that private copying from an illegal source is to be deemed impermissible. The drafting history of the provision, by contrast, reflects the clear intention of the Dutch legislator to exempt private copying irrespective of whether a legal or illegal source is used.⁶⁵ Having recourse to the three-step test of Article 5(5) of the Copyright Directive, the District Court of The Hague, nonetheless, dismantled this seemingly robust edifice of legal certainty in one single sentence. Without offering a detailed analysis, the Court stated that private copying from an illegal source was ‘in conflict with the three-step test’. Accordingly, it was held to fall outside the private copying exemption of Article 16c:

‘In the parliamentary history, there are indications of a different interpretation. However, the interpretation advocated by the minister and supported by the

⁶¹ In the case ‘Zienderogen Kunst’, dating back to the year 1990, the Dutch Supreme Court invoked the three-step test of Art. 9(2) of the Berne Convention to support its holding that the quotation of a work may not substantially prejudice the right holder’s interest in the exploitation of the work concerned. See Hoge Raad, June 22, 1990, no. 13933, NJ 1991, p. 268 with case comment by J.H. Spoor; *Informatierecht/AMI* 1990, p. 202 with case comment by E.J. Dommering; *Ars Aequi* 40 (1991), p. 672 with case comment by H. Cohen Jehoram.

⁶² In 2003, the Amsterdam Court of Appeals found that a parody did not harm the normal exploitation of the parodied work because it concerned a different market. See *Gerechtshof Amsterdam*, January 30, 2003, *AMI* 2003, p. 94 with case comment by K.J. Koelman. In a 2006 decision concerning online advertisements reproducing the so-called ‘TRIPP TRAPP chair’, the Court of Zwolle-Lelystad referred to the three-step test of Art. 5(5) of the Directive in the context of Art. 23 of the Dutch Copyright Act – a limitation permitting the use of certain artistic works for the purpose of advertising their public exhibition or sale. The Court found that the use in question prejudiced the exploitation interest of the right holder. This was one of the reasons for denying compliance with Art. 23. See *Rechtbank Zwolle-Lelystad*, May 3, 2006, case no. 106031, LJN: AW 6288, *AMI* 2006, p. 179 with case comment by K.J. Koelman; *Mediaforum* 2006/9 with case comment by B.T. Beuving.

⁶³ Besides the following example, see also District Court of The Hague (*Rechtbank Den Haag*), March 2, 2005, case no. 192880, LJN: AS 8778, *Computerrecht* 2005, p. 143 with case comment by K.J. Koelman. For an overview of national case law using the three-step test to further restrict statutory exceptions, see Griffiths, *supra* note 41, 493; Geiger, *supra* note 41, 683; C. Geiger, *The Answer to the Machine Should not be the Machine: Safeguarding the Private Copy Exception in the Digital Environment*, *EIPR* 2008, p. 121.

⁶⁴ See *Rechtbank Den Haag*, June 25, 2008, case 246698, LJN BD5690, *AMI* 2008, p. 146 with case comment by C.B. van der Net.

⁶⁵ See the material quoted by the *Rechtbank Den Haag*, *ibid.*, para. 4.4.1.

government – assuming that private copying from an illegal source was legal – is in conflict with the three-step test of Article 5(5) of the Directive.’⁶⁶

The central point here is not the prohibition of private copying using illegal sources. It is the erosion of the central argument weighing in favour of precisely-defined exceptions and against a fair use system. Regardless of detailed definitions given in the Dutch Copyright Act, the ruling of the Court minimizes the degree of legal certainty in the field of copyright limitations. Users of copyrighted material in the Netherlands can no longer rely on the wording of the applicable statutory exception. On the basis of the EC three-step test, a certain use may be held to amount to copyright infringement even though it is exempted from the authorization of the right holder in the Dutch Copyright Act.⁶⁷

Hence, neither legal certainty nor sufficient flexibility can be attained. In EC copyright systems incorporating the three-step test into national law, such as the French system, this dilemma is at least made obvious for users relying on copyright exceptions.⁶⁸ The problem as such, however, is not solved. When it is considered that, in addition, law making in the EC is much slower than in individual countries, it becomes clear that current EC copyright law causes a high risk of missing opportunities for cultural, social and economic development that arise from the web 2.0. The process of updating EC copyright legislation requires not only agreement at Community level but also national implementation acts in all Member States. Without fair use provisions in the field of copyright limitations, this process will be far too slow to keep pace with the rapid development of the Internet. The current situation in the EC is a worst case scenario.⁶⁹

4. Conclusion

In copyright law, a broad grant of protection and exposure to fast technological developments justify a fair use approach. International obligations do not preclude national fair use legislation. The international three-step test, by contrast, can serve as a model for national fair use factors. Given the potential of the web 2.0 for social, cultural and economic development, it seems advisable to seize this opportunity of flexible law making. The example of the EC Copyright Directive testifies to the dilemma arising from a restrictive approach. If the three-step test is employed to further restrict precisely-defined copyright exceptions, a copyright system is created that offers neither legal certainty nor sufficient flexibility.

⁶⁶ See Rechtbank Den Haag, June 25, 2008, case 246698, LJN BD5690, AMI 2008, p. 146 with case comment by C.B. van der Net, para. 4.4.3.

⁶⁷ See M.R.F. Senftleben, ‘Privé-kopiëren in het licht van de driestappentoets – opmerkingen naar aanleiding van het vonnis van de Haagse rechtbank inzake de thuiskopie’, *Intellectuele eigendom en reclamerecht* 2008, p. 265.

⁶⁸ See Art. L. 122-5 of the French Intellectual Property Act (Code de la propriété intellectuelle). Cf. A. Lucas/P. Sirinelli, ‘Chronique: Droit d’auteur et droits voisins’, *Propriétés intellectuelles* 2006, p. 297 (314-316); V.L. Benabou, ‘Patatras! A propos de la décision du Conseil constitutionnel du 27 juillet 2006’, *Propriétés intellectuelles* 2006, p. 240; C. Geiger, *The French Implementation of the Information Society Directive: a Disappointing Result of a Promising Debate*, AMI 2008, p. 1. M.R.F. Senftleben, *L’application du triple test: vers un système de fair use européen?*, *Propriétés intellectuelles* 2007, p. 453. In the Netherlands, H. Cohen Jehoram advocates the inclusion of the three-step test in the Dutch Copyright Act. See references supra note 59.

⁶⁹ See Senftleben, supra note 60, 2-4. To reduce the harm flowing from the Copyright Directive, the EC three-step test should at least be construed flexibly. For guidelines in this regard, see C. Geiger/J. Griffiths/R.M. Hilty, *Declaration on a Balanced Interpretation of the ‘Three-Step Test’ in Copyright Law*, IIC 39 (2008), p. 707. For a fair use approach to the EC three-step test, see Senftleben, supra note 50, p. 10.

V. Patents

While copyright law is characterized by a wide variety of limitations, patent law provides for a rather limited set of exceptions. In many national systems, these exceptions concern private use, scientific experimentation and certain forms of compulsory licensing. A patent fair use provision would be a remarkable step towards enhanced flexibility.⁷⁰ Against this background, it seems advisable to ask first whether international patent law permits a fair use approach (1) before assessing the need for fair use (2), the scope of a potential patent fair use defence (3) and drawing conclusions (4).

1. Permissibility

In the course of the TRIPS negotiations, the copyright three-step test served as a model for a corresponding patent provision. Article 30 TRIPS offers WTO Members the freedom to

‘...provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.’

This patent three-step test deviates from the copyright provision in several ways. Instead of ‘certain special cases’, Article 30 TRIPS requires ‘limited exceptions’. A conflict with a normal exploitation is permissible as long as it is not unreasonable. When assessing prejudices to legitimate interests, the interests of third parties are to be taken into account besides those of the patent owner.

With regard to fair use legislation, use of the term ‘limited exceptions’ instead of ‘certain special cases’ seems particularly relevant. Arguments against copyright fair use systems have been based on alleged shortcomings in the field of legal certainty. As discussed above, the standard of legal certainty established by the WTO Panel dealing with the copyright three-step test, however, can hardly be understood to militate against fair use legislation. The WTO Panel report in ‘Canada – Protection of Pharmaceutical Products’⁷¹ is even more cautious in this regard. Interpreting the patent three-step test, the Panel refrained from developing a separate requirement of legal certainty altogether. The report clarifies that the word ‘limited’ has to be given a meaning separate from the limitation implicit in the word ‘exception’ itself. It has to be read ‘to connote a narrow exception – one which makes only a small diminution of the rights in question.’⁷² The reference point for determining limited exceptions is the curtailment of exclusive rights.⁷³ A specific requirement of legal certainty, however, is sought in vain in the Panel’s discussion of the ‘limited exceptions’ test.⁷⁴

⁷⁰ Nevertheless, copyright fair use is used as a reference point in the discussion on more flexibility for exceptions to patent rights. See L.R. de Larena, What Copyright Teaches Patent Law about ‘Fair Use’ and Why Universities are Ignoring the Lesson, *Orlando Law Review* 84 (2005), p. 779; J.M. Mueller, The Evanescent Experimental Use Exemption From United States Patent Infringement Liability: Implications for University and Nonprofit Research and Development, *Baylor Law Review* 56 (2004), p. 917; M.A. O’Rourke, Toward a Doctrine of Fair Use in Patent Law, *Columbia Law Review* 100 (2000), p. 1177 (1178).

⁷¹ See WTO Document WT/DS114/R, online available at www.wto.org. For comments on the report, see Kur, *supra* note 41; Senftleben, *supra* note 52; Ficsor, *supra* note 52.

⁷² See WTO Panel – Patents, *ibid.*, para. 7.30.

⁷³ See WTO Panel – Patents, *ibid.*, para. 7.31.

⁷⁴ See Senftleben, *supra* note 52, 419.

Instead, the Panel focused on quantitative and qualitative factors to determine whether the Canadian exceptions at issue fulfilled the test. The stockpiling exception of Section 55.2(2) of Canada's Patent Act was held not to constitute a 'limited exception'. The provision allowed competitors to manufacture a stock of goods six months prior to the expiry of the patent, thereby encroaching upon the rights of 'making' and 'using' the patent.⁷⁵ In this respect, the Panel emphasized that the exception contained 'no limitations at all upon the quantity of production.'⁷⁶ In the case of the Bolar-type regulatory review exception of Section 55.2(1) of Canada's Patent Act, the Panel focused on qualitative considerations instead. The exception was countenanced on the grounds that it was confined to conduct needed to comply with the requirements of a regulatory approval process for pharmaceutical products, and would not allow commercial use.⁷⁷

The 'limited exceptions' test, thus, requires a weighing process that includes quantitative and qualitative considerations. While the large volume of exempted production tipped the scales against the stockpiling exception, the confinement to use during the regulatory approval process saved the regulatory review exception. Compliance with this standard could be ensured by national courts on the basis of a national patent fair use system. Like the 'certain special cases' test in copyright law, the 'limited exceptions' test does not preclude fair use legislation. Article 17 TRIPS – the trademark provision corresponding to Article 30 TRIPS – even refers to 'limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms...' Therefore, an obligation to set forth precisely-defined exceptions can hardly be derived from the word 'exceptions' or the expression 'limited exceptions'. The TRIPS Agreement itself clarifies that fair use-type limitations may pass the test.

The remaining criteria of the patent three-step test are more flexible than their copyright counterparts. Article 30 requires that exceptions 'do not unreasonably conflict with a normal exploitation'. The word 'unreasonably' suggests that a conflict with a normal exploitation may be deemed reasonable under certain circumstances. The copyright three-step test, by contrast, prohibits conflicts with a normal exploitation in general. The last criterion of Article 30 – no unreasonable prejudice to legitimate interests – contains a reference to third party interests that is missing in copyright law. This additional reference clarifies that prejudices to the legitimate interests of patent owners may be acceptable, if they can be justified in the light of legitimate third party interests.

In sum, the criteria of Article 30 thus offer more room for national fair use approaches than the copyright three-step test. As to the scope of patent fair use legislation, however, it is to be considered that the TRIPS Agreement distinguishes between exceptions to the rights of patent owners falling under the flexible conditions of Article 30, and 'other use [...] without the authorization of the right holder' that is regulated in much more detail in Article 31. This detailed regulation concerns the grant of compulsory licenses at the national level, including licenses for the exploitation of dependent second patents. Given the rigidity of the rules set forth in Article 31, it is to be conceded that, in the area of compulsory licensing, international patent law does not leave room for flexible fair use elements.

⁷⁵ See Article 28(1) TRIPS and WTO Panel – Patents, fn. 1, para. 7.35.

⁷⁶ See WTO Panel – Patents, *ibid.*, para. 7.34.

⁷⁷ See WTO Panel – Patents, *ibid.*, para. 7.45.

It is noteworthy, however, that the inflexibility of Article 31 led to an amendment to the TRIPS Agreement. The strict conditions established in the provision, such as the requirement of domestic market supply in subparagraph (f), may prevent countries with insufficient manufacturing capacities in the pharmaceutical sector from availing themselves of compulsory licenses to ensure sufficient access to medicines. Recognizing this problem, paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health adopted on November 14, 2001, provides for certain derogations from the obligations laid down in Article 31.⁷⁸ This so-called ‘paragraph 6 system’ shows that the issue of compulsory licensing and its international regulation in Article 31 is particularly delicate. It may be seen as an indication that the international patent framework itself could be improved by replacing the rigid Article 31 with a more flexible standard including fair use elements.⁷⁹ This question, however, concerns the need for patent fair use provisions rather than the permissibility of national fair use approaches under the current set of international rules.

2. Need for Fair Use

As discussed above, factors weighing in favour of a fair use approach are broad exclusive rights that need to be counterbalanced, and exposure to rapid technological developments. In patent law, there can be little doubt about a broad grant of protection. The international minimum standard set forth in Article 28 TRIPS encompasses the rights of ‘making, using, offering for sale, selling, or importing for these purposes...’ In case of processes, the right relates to ‘using the process’ and products directly obtained through such use. In contrast to copyright law, however, patent protection depends on registration. In examination systems, the invention is scrutinized as to novelty and inventiveness during the registration procedure. The factor ‘broad grant of protection’, therefore, seems to weigh less clearly in favour of fair use than in the case of copyright law. While exclusive rights are broad, access to these rights depends on a detailed examination. It may be argued that the filtering of subject matter as a result of the registration procedure keeps patent protection within pre-defined limits. Precisely-defined exceptions may be sufficient to ensure an appropriate counterbalance within the protection system.

The registration requirement, however, is of a procedural nature. As clarified in Article 27 TRIPS, ‘patents shall be available for any inventions, whether products or processes, in all fields of technology...’ As long as the threshold requirements of novelty, inventiveness and industrial applicability are fulfilled, a patent is to be issued. Registration does not serve as a means to confine the system to a pre-defined circle of technologies. An unforeseen need for reconsidering and recalibrating the system may thus arise, just like in copyright law, from

⁷⁸ Cf. A. Law, *Patents and Public Health: Legalising the Policy Thoughts in the Doha TRIPS Declarations* of 14 November 2001, Baden-Baden: Nomos 2009; M. Gumbel, *Is Article 31bis Enough? The Need to Promote Economies of Scale in the International Compulsory Licensing System*, *Temple International and Comparative Law Journal* 22-1 (2008), p. 161; F.M. Abbott/J.H. Reichman, *The Doha Round’s Public Health Legacy: Strategies for the Production and Diffusion of Patented Medicines under the Amended TRIPs Provisions*, *Journal of International Economic Law* 10-4 (2007), p. 921; F.M. Abbott, *Compulsory Licensing for Public Health: A Guide and Model Documents for Implementation of Doha Declaration Paragraph 6 Decision*, Washington: World Bank Publications 2005.

⁷⁹ Cf. D. Matthews, *From the August 30, 2003 WTO Decision to the December 6, 2005, Agreement on an Amendment to TRIPS: Improving Access to Medicines in Developing Countries?*, *Intellectual Property Quarterly* 2006, p. 91; Th.A. Haag, *TRIPS Since Doha: How Far Will the WTO Go Toward Modifying the Terms for Compulsory Licensing?*, *Journal of the Patent and Trademark Office Society* 2002, p. 945; K. Gamharter, *Access to Affordable Medicines: Developing Responses Under the TRIPS Agreement and EC Law*, Berlin/Heidelberg: Springer 2004.

new technological developments. The grant of patents for software and biotechnological inventions are examples of technology that have created a need for reconsidering the balance between freedom of use and protection of the right owner. Moreover, a need for recalibrating the balance in patent law can follow from external influence factors. Patented technology may be central to the provision of important public goods. The debate on patents and public health is currently supplemented with a debate on patents and measures against global warming.⁸⁰ In sum, a broad grant of protection and exposure to new technologies justify to consider a fair use approach in patent law.

3. Scope of Fair Use

The central objective of patent fair use could be the facilitation of experimental use and follow-on innovation. Experiences in the field of copyright law show that fair use can serve as an engine of the productive reuse of existing material. So-called ‘transformative use’ is an important factor capable of justifying a finding of fair use, for instance, in the US copyright system.⁸¹ With regard to patents, it is noteworthy that the WTO Panel applying Article 30 TRIPS referred to the patent policy of facilitating the dissemination and advancement of technical knowledge in the context of the ‘legitimate interests’ test. The Panel explained that the requirement in patent law, that the nature of the invention be disclosed to the public, would partly be frustrated if the patent owner could prevent experimental use during the term of the patent. Both society and the scientist had a ‘legitimate interest’ in using the patent disclosure to support the advance of science and technology.⁸² This line of argument supports a flexible framework for experimental use.⁸³

More flexibility in the field of experimental use may be required indeed. With courts refusing to apply the experimental use defence to research aimed at regulatory approval for marketing purposes, legislative action exempting this type of use had to be taken in many countries.⁸⁴ In

⁸⁰ See E. Derclaye, *Should Patent Law Help Cool the Planet? An Inquiry from the Point of View of Environmental Law – Parts I & II*, *European Intellectual Property Review* 2009, p. 168 and p. 227.

⁸¹ This line between transformative use in the field of copyright law and a potential patent fair use defence is also drawn by Mueller, *supra* note 70, 976. In *Campbell v. Acuff-Rose*, 510 US 569 (1994), II A, the US Supreme Court described the notion of transformative use as follows: ‘The central purpose of this investigation is to see [...] whether the new work merely supersedes the objects of the original creation [...] or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is “transformative”.’ Cf. P.N. Leval, *Toward a Fair Use Standard*, *Harvard Law Review* 103 (1990), p. 1105 (1111); N.W. Netanel, *Copyright and a Democratic Civil Society*, *Yale Law Journal* 106 (1996), p. 283 (381).

⁸² See WTO Panel – Patents, *supra* note 71, para. 7.69.

⁸³ More breathing space in the area of experimental use is particularly proposed in restrictive national systems, such as the US patent system. Cf. R. Cooper Dreyfuss, *Protecting the Public Domain of Science: Has the Time for an Experimental Use Defense Arrived?*, *Arizona Law Review* 46 (2004), p. 457; K.J. Strandburg, *What Does the Public Get? Experimental Use and the Patent Bargain*, *Wisconsin Law Review* 81 (2004); J. Mohr, *Unshackle Academia and Allow it to Exemplify the Purpose of Patent Law: ‘To Promote the Progress of Science and the Useful Arts*, *Marquette Law Review* 88 (2004), p. 671; J.M. Mueller, *No ‘Dilettante Affair’: Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools*, *Washington Law Review* 76 (2001). A fair use solution resting on open-ended criteria is espoused in this context by O’Rourke, *supra* note 70; Mueller, *supra* note 70. Doubt is cast upon the need for more flexibility by A. Devlin, *Restricting Experimental Use*, *Harvard Journal of Law & Public Policy*, 32 (2009), p. 599.

⁸⁴ See US Court of Appeals for the Federal Circuit, 733 F.2d 858 (Fed. Cir. 1984), *Roche Products vs. Bolar Pharmaceutical*; Dutch Supreme Court (Hoge Raad), December 18, 1992, *GRUR International* 1993, p. 887, *ICI/Medicopharma* (‘Atenolol’). Cf. M.H.D.B. Schutjens, *Arzneimittelversuche und Patentrecht – Anmerkungen zum Urteil des Hoge Raad vom 18. Dezember 1992 – ‘Atenolol’*, *GRUR International* 1993, p. 827. In both countries, a specific exception for the use of patented material to obtain marketing approval has been introduced

the US, however, the experimental use defence is applied even more restrictively. Following the traditional distinction between unjustified commercial and exempted non-commercial use, the Federal Circuit held in *Madey vs. Duke* that the use of Madey's patents by the Duke University went beyond the scope of the experimental use defence because it furthered Duke's overall business objectives, including educating and enlightening students and faculty, and benefited Duke's reputation. The Court concluded that

'regardless of whether a particular institution or entity is engaged in an endeavor for commercial gain, so long as the act is in furtherance of the alleged infringer's legitimate business and is not solely for amusement, to satisfy idle curiosity, or for strictly philosophical inquiry, the act does not qualify for the very narrow and strictly limited experimental use defense. Moreover, the profit or non-profit status of the user is not determinative.'⁸⁵

Given the broad notion of commercial use applied in this case, and the increasing number of collaborative research involving universities and private companies, this approach renders the experimental use defence meaningless.⁸⁶

Inspiration for reinstating the defence in the framework of fair use legislation can be found in the decisions *Clinical Trials I* and *II* of the German Federal Court of Justice. § 11 No. 2 of the German Patent Act exempts 'acts done for experimental purposes relating to the subject matter of the patented invention'.⁸⁷ The decision *Clinical Trials I* concerned the use of patented material for the identification of new medical indications. In this context, the Court clarified that all kinds of experimental use were exempted to the extent to which the use served the purpose of obtaining knowledge and, therefore, concerned scientific research on the subject matter of the patented invention, including its application. In particular, it was not decisive whether the experiments were undertaken merely to review the particulars of the patent specification. Use for the purpose of obtaining new research results would also fall under the exception irrespective of whether the user had further intentions, such as use of the results for commercial purposes.⁸⁸ In *Clinical Trials II*, the Court confirmed that the defence applied to all experimental acts that relate to the subject matter of the invention, regardless of whether the tests produced purely scientific or industrially exploitable results. The defence could be invoked as long as the research did not specifically aim at impeding or frustrating the sale of the original product.⁸⁹

in the meantime. See § 271(e) of the US Patent Act and Article 53(4) of the Dutch Patent Act. With regard to this statutory solution, see K.J. Strandburg, *The Research Exemption to Patent Infringement: The Delicate Balance Between Current and Future Technical Progress*, in: P.K. Yu (ed.), *Intellectual Property and Information Wealth*, Westport: Praeger Publishers 2006, p. 107 (112-115).

⁸⁵ See US Court of Appeals for the Federal Circuit, 307 F.3d 1351 (Fed. Cir. 2002), *Madey vs. Duke University*.

⁸⁶ Cf. G. Pulsinelli, *Share and Share Alike: Increasing Access to Government-Funded Inventions Under the Bayh-Dole Act*, *Minnesota Journal of Law, Science and Technology* 7 (2006), p. 393; J.L. Owens, 'Not Quite Dead Yet': The Near Fatal Wounding of the Experimental Use Exception and its Impact on Public Universities, *Journal of Telecommunication and High Tech Law* 3 (2005), p. 453; D.G. Sewell, *Rescuing Science From the Courts: An Appeal for Amending the Patent Code to Protect Academic Research in the Wake of Madey vs. Duke University*, *Georgetown Law Journal* 93 (2005), p. 759; T.V. Garde, *The Effect of Disparate Treatment of the Experimental Use Exemption on the Balancing Act of 35 U.S.C. § 104*, *IIC* 35 (2004), p. 241.

⁸⁷ Like corresponding provisions in many other European countries, this article has been modelled on Article 27(b) of the Community Patent Convention. Cf. W.R. Cornish, *Experimental Use of Patented Inventions in European Community States*, *IIC* 29 (1998), p. 735 (735-736).

⁸⁸ See Federal Court of Justice (Bundesgerichtshof), July 11, 1995, case X ZR 99/92, *GRUR* 1996, 109 (113).

⁸⁹ See Bundesgerichtshof, April 17, 1997, case X ZR 68/94, *Neue Juristische Wochenschrift* 1997, p. 3092.

The conceptual contours of a patent fair use defence could be drawn along the lines of these German decisions. Fair use could particularly aim at providing more flexibility in the area of follow-on innovation by exempting research that is carried out to understand and improve the invention, explore new fields of application or design around it. In these cases, it should be possible to invoke the defence even when the experiments, ultimately, aim at the commercial exploitation of research results.⁹⁰ In consequence, the defence could be applied more broadly and support the advance of science and technology more efficiently than the current restrictive approach. Patent fair use factors would permit the courts to weigh the detriment to the patentee against the benefits accruing from enhanced technical knowledge. The more substantial the technical advance to be expected from research, the more clearly the factors should weigh in favour of fair use.⁹¹ To facilitate the task of establishing a proportionate relation between the detriment to the patentee and the benefits for the researcher and the public, the courts should be entitled to provide, where necessary, for the payment of equitable remuneration. In this way, an additional balancing tool is provided that allows the courts to reduce the harm to the patentee to reasonable limits in cases where extensive experimental use needs to be justified under the fair use system.⁹²

With a fair use doctrine of this type, the patent system would have less difficulty to cope with current challenges, for instance, in the field of computer software. The decision to protect computer programs as literary works under international copyright standards indicates that, in line with the idea/expression dichotomy in copyright law, concepts, methods and processes underlying a computer program should remain free. In addition, copyright law provides for exceptions to enable the decompilation of the program for the purpose of achieving interoperability.⁹³ As innovation in the software sector is known to occur in small incremental steps, it is advisable to preserve this breathing space for follow-on innovation when software is additionally patented. Otherwise, patent protection may become too heavy a burden, in particular, for small and medium-sized enterprises not involved in the patenting of software and, therefore, unable to pool patent portfolios to obtain use permissions for patented algorithms and interfaces.⁹⁴

A restrictive approach to experimental use does not permit the reverse engineering of patented software with the aim to use the knowledge about the deciphered interface to develop a new

⁹⁰ Cf. O'Rourke, *supra* note 70, 1199; A. Van der Merwe, *Experimental Use and Submission of Data for Regulatory Approval*, IIC 31 (2000), p. 380 (388); Th. Hieber, *Die Zulässigkeit von Versuchen an patentierten Erfindungen nach § 11 Nr. 2 PatG 1981*, GRUR 1996, p. 439 (447).

⁹¹ Cf. O'Rourke, *supra* note 70, 1203. For proposals of patent fair use factors to be applied in this context, see O'Rourke, *ibid.*, 1230-1235; Mueller, *supra* note 70, 973-979.

⁹² The copyright three-step test is traditionally understood to recognize the possibility of providing for the payment of equitable remuneration to enhance flexibility in the outlined sense. In the context of the third test, an unreasonable prejudice to legitimate interests can be reduced to a permissible, reasonable level by securing the payment of equitable remuneration. See Senfleben, *supra* note 13, 127-133.

⁹³ For example, see Article 6 of the EC Computer Programs Directive 2009/24 and § 1201(a)(1) and (2) of the US Digital Millennium Copyright Act.

⁹⁴ Cf. M. Leistner, *Computerimplementierte Erfindungen im System des 'Geistigen Eigentums'*, in: O. Depenheuer/K.N. Peifer (eds.), *Geistiges Eigentum: Schutzrecht oder Ausbeutungstitel?*, Berlin/Heidelberg: Springer 2008, p. 188; G. Ghidini/E. Arezzo, *Patent and Copyright Paradigms vis-à-vis Derivative Innovation: The Case of Computer Programs*, IIC 36 (2005), p. 166; R.M. Hilty/C. Geiger, *Patenting Software? A Judicial and Socio-Economic Analysis*, IIC 36 (2005), p. 615; J. Weyand/H. Haase, *Patenting Computer Programs: New Challenges*, IIC 36 (2005), p. 647; J.E. Cohen/M.A. Lemley, *Patent Scope and Innovation in the Software Industry*, *California Law Review* 89 (2001), 41-42; C. Caron, *Réflexions sur la coexistence du droit d'auteur et du droit des brevets sur un même logiciel*, RIDA 184 (2000), p. 3.

product that can be marketed.⁹⁵ A patent fair use defence that can be invoked irrespective of commercial motivations, by contrast, would enable this experimental use in line with applicable copyright standards. As shown by the analysis conducted by O'Rourke, patent fair use could prevent software patents from unduly impeding competition. The use of interfaces for achieving interoperability would remain possible. In this context, the payment of equitable remuneration could play an important role:

‘...patent fair use would give the infringer a threat to use in negotiations, increasing the chances that the parties will reach a socially beneficial licensing agreement. By placing the compensation rate, if any, at something less than market value, the patentee is less likely to view competition through reverse engineering as an empty threat. [...] Yet, if the patentee refuses to license, the fair use doctrine could act as a safety valve, excusing the infringement when it would be socially beneficial.’⁹⁶

Patent fair use could also have beneficial effects in areas of technology where the high number of patents creates an ‘anti-commons’: rights are held by so many different owners that the costs of accumulating all required licenses for an envisaged production become prohibitively high. This problem has been identified, for instance, in the field of biotechnology.⁹⁷ With a fair use system extending the scope of the experimental use defence to commercially-motivated activities, research use could be exempted that is undertaken to find ways of inventing around the patent for the purpose of enabling a production for which the necessary license cannot be obtained. In situations where a developer has already amassed the majority of the required licenses to market a product, this freedom may serve as a catalyst inducing the patentee of the remaining technology to enter into a licensing agreement.⁹⁸

A patent fair use system could also broaden the experimental use defence with regard to use that does not concern research ‘on’ but ‘with’ the patented invention.⁹⁹ This broader notion of research use is beyond the scope of systems that, like legislation in most European countries, exempt experiments only insofar as the use aims at enhancing knowledge on the used patented invention itself. As indicated above, German legislation, for instance, only covers ‘acts done for experimental purposes relating to the subject matter of the patented invention.’

⁹⁵ Cf. O'Rourke, *supra* note 70, 1194.

⁹⁶ See O'Rourke, *supra* note 70, 1235.

⁹⁷ See O'Rourke, *supra* note 70, 1236-1237; M.A. Heller/R.S. Eisenberg, Can Patents Deter Innovation? The Anticommons in Biomedical Research, *Science*, Vol. 280 (1998), p. 698. However, see also H. Hamme Ramirez, Defending the Privatization of Research Tools: An Examination of the ‘Tragedy of the Anticommons’ in Biotechnology Research and Development, *Emory Law Journal* 53 (2004), p. 359; R.A. Epstein/B. Kuhlik, Is There a Biomedical Anticommons?, *Regulation* 27 (2004), p. 54, calling doubt upon the assumption of an anticommons in the field of biotechnology.

⁹⁸ Cf. O'Rourke, *supra* note 70, 1238, who envisages a system in which a court ‘might allow the infringement to proceed and award a royalty while the infringement continues.’ This proposal goes beyond the solution developed here which focuses on designing around the patented technology. It would have to be clarified whether this broader approach complies with the restrictive Article 31 TRIPS.

⁹⁹ Cf. D.C. Hoffman, A Modest Proposal: Toward Improved Access to Biotechnology Research Tools by Implementing a Broad Experimental Use Exception, *Cornell Law Review* 89 (2004), p. 993; N.M. Derzko, In Search of a Compromised Solution to the Problem Arising from Patenting Biomedical Research Tools, *Santa Clara Computer & High Tech Law Journal* 20 (2004), p. 347; R.D. Hantman, Experimental Use as an Exception to Patent Infringement, *Journal of the Patent and Trademark Office Society* 67 (1986), p. 617. However, see also E. Pfaff, ‘Bolar’ Exemptions – A Threat to the Research Tool Industry in the U.S. and the EU?, *IIC* 38 (2007), p. 258; H. Holzapfel, Die patentrechtliche Zulässigkeit der Benutzung von Forschungswerkzeugen, *GRUR* 2006, p. 10; M.M. Pedrazzini, Zur patentrechtlichen Problematik von Versuchen, die ein fremdes Patentrecht benützen, *GRUR International* 1996, p. 373.

As a result, use that employs a patented technology to examine the properties of something else falls outside the scope of the exemption. In particular, the confinement to research on the patented technology constitutes an obstacle to the unauthorized use of research tools. This restriction may be unjustified in the case of tools developed by non-profit inventors who are not primarily motivated by the prospect of commercial sales.¹⁰⁰ An even broader approach has been developed by Strandburg. She proposes to extend the exemption for experimental use to all kinds of research tools, including those developed by commercial inventors. With regard to the effect of this blanket exemption on the disclosure of technology, Strandburg's analysis indicates that the benefits of earlier availability of research tool inventions to researchers is likely to outweigh the social costs of later tool disclosure.¹⁰¹ Considering the impact on commercial suppliers, she argues that

‘[r]esearchers will buy many tools from suppliers whether or not the tools are patented, simply as a matter of efficiently allocating limited researcher time and resources. Because tool suppliers will already rationally focus on developing research tools and tool improvements that researchers will buy rather than make, a research use exemption may have little impact, simply bolstering that preference.’¹⁰²

A fair use framework would avoid disproportionate harm in this context. Given the unclear impact of a general experimental use exemption on research tool disclosure and commercial supply, a nuanced fair use weighing process seems more appropriate than the blanket solution proposed by Strandburg. With factors weighing in favour of follow-on innovation, but against use free of charge in standard research procedures, a fair use system could support the use of research tools for the advancement of technical knowledge without encroaching upon the market for non-inventive standard applications, such as standard trials in the medical sector. Article 30 TRIPS prohibits ‘unreasonable’ conflicts with a normal exploitation. The interests of third parties, such as researchers and the public at large, are to be factored into the equation when assessing ‘unreasonable’ prejudices to the legitimate interests of patent owners. These tests of reasonableness could be translated into national fair use legislation to ensure that the exemption of research use, covering experiments ‘on’ as well as ‘with’ patented technology, keeps within justifiable, reasonable limits.¹⁰³

As indicated above, international patent law itself may also be considered a field of application for patent fair use legislation. The ‘paragraph 6 system’ following from the Doha Declaration testifies to the enormous difficulty of readjusting the detailed requirements laid down in Article 31 TRIPS. Against this background, the time seems ripe to consider a deliberate opening of the current system by introducing more flexible requirements. Factors to be considered could be an urgent need to provide certain public goods, such as public health and measures against global warming.¹⁰⁴ It is to be considered also that Article 31(l) governs

¹⁰⁰ Cf. K.J. Strandburg, *Users as Innovators: Implications for Patent Doctrine*, University of Colorado Law Review 79 (2008), p. 467 (508-518).

¹⁰¹ See Strandburg, *ibid.*, 530-531.

¹⁰² See Strandburg, *ibid.*, 526-527.

¹⁰³ However, see also the more nuanced ‘double-edged sword’ approach developed by Strandburg, *supra* note 101, 534-539, which would exempt non-commercial research use of all patented inventions and all research use of inventions made by non-profit inventors.

¹⁰⁴ See the references *supra* notes 78-80. Cf. Th. Pogge/M. Rimmer/K. Rubenstein (eds.), *Incentives for Global Public Health: Patent Law and Access to Essential Medicines*, Cambridge: Cambridge University Press 2010; Th. Cottier/J. Pauwelyn/E. Bürgi (eds.), *Human Rights and International Trade*, Oxford: Oxford University Press 2005; K.E. Maskus/ J.H. Reichman, *The Globalization of Private Knowledge Goods and the Privatization of*

compulsory licenses in the area of dependent second patents. More flexibility in this field would be consistent with the proposed fair use defence. Given the small, incremental steps of follow-on innovation in the software industry, for instance, it is doubtful whether the requirement of ‘an important technical advance of considerable economic significance’ is an appropriate threshold for the grant of compulsory licenses.

4. Conclusion

Like in copyright law, broad exclusive rights and challenges arising from new technologies justify flexible fair use legislation in the area of patents. As the patent disclosure rationale, ultimately, aims at the use of disclosed know-how for the further advancement of science and technology, it is consistent to adopt a fair use standard that offers an open, flexible framework for experimental use and follow-on innovation. The application of fair use factors in this area can be expected to inhibit patent protection from impeding innovation without becoming an obstacle to investment in research and development and the disclosure of technology. The system will have beneficial effects in areas where innovation occurs in small, incremental steps, like in the software industry. It will also help to alleviate the problem of the anti-commons that has been identified, for instance, in the field of biotechnology.

VI. Trademarks

Trademarked identifiers of commercial source are reserved for one individual market participant as long as this trader continues to use the sign. The focus of trademark fair use, therefore, is likely to differ from the concepts discussed so far. While copyright and patent fair use systems may primarily aim to support transformative use and follow-on innovation, trademark fair use can be expected to be concerned predominantly with alleviating the rigours of a stable system of potentially indefinite protection. It will aim to keep certain signs available for use by all traders or the public at large.¹⁰⁵ It may also aim to reconcile trademark protection with competing interests, such as freedom of speech, that are not represented adequately in the trademark system focusing on the relation between traders.¹⁰⁶ Again, the question of fair use permissibility will be raised (1) before assessing the need for fair use (2), analysing existing fair use approaches (3) and making concluding remarks (4).

Global Public Goods, in: K.E. Maskus/J.H. Reichman (eds.), *International Public Goods and Transfer of Technology Under a Globalized Intellectual Property Regime*, Cambridge: Cambridge University Press 2005.

¹⁰⁵ Cf. J. Phillips, *Trade Mark Law and the Need to Keep Free – Intellectual Property Monopolies Have Their Limits*, IIC 36 (2005), p. 389; Th. Sambuc, *Das Freihaltebedürfnis an beschreibenden Angaben und der Ware selbst nach dem Markengesetz, GRUR* 1997, p. 403. For a general analysis of the evolution of limitations in trademark law, see G.B. Dinwoodie, *Lewis & Clark Law School Ninth Distinguished IP Lecture: Developing Defenses in Trademark Law*, *Lewis and Clark Law Review* 13/1 (2009), p. 99.

¹⁰⁶ Cf. W. Sakulin, *Trademark Protection and Freedom of Expression – An Analysis into the Conflict Between Trademark Rights and Freedom of Expression Under European, German and Dutch Law*, Amsterdam 2010; C. Geiger, *Fundamental Rights, a Safeguard for the Coherence of Intellectual Property?*, IIC 35 (2004), p. 268; L. Timbers/J. Huston, *The ‘Artistic Relevance Test’ Just Became Relevant: the Increasing Strength of the First Amendment as a Defense to Trademark Infringement and Dilution*, *Trade Mark Reporter* 93 (2003), p. 1278; R. Cooper Dreyfuss, *Reconciling Trademark Rights and Expressive Values: How to Stop Worrying and Learn to Love Ambiguity*, in: (eds.), *Trademark Law and Theory: a Handbook of Contemporary Research*, Cheltenham: Edward Elgar Publishing 2008, p. 261.

1. Permissibility

Article 17 TRIPS allows WTO Members to

‘...provide limited exceptions to the rights conferred by a trademark, such as fair use of descriptive terms, provided that such exceptions take account of the legitimate interests of the owner of the trademark and of third parties.’

This trademark test deviates significantly from the three-step tests in copyright and patent law. However, it does not preclude national fair use legislation. As discussed above, the requirement of ‘limited exceptions’ does not preclude open-ended fair use legislation. In ‘EC – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs’, the WTO Panel dealing with Article 17 followed the approach taken previously in the patent case concerning Article 30 TRIPS. It measured the extent to which a curtailment of exclusive trademark rights resulted from national limitations – without requiring precisely-defined exceptions.¹⁰⁷ The remaining ‘legitimate interests’ test of Article 17 is much more flexible than the corresponding tests in Articles 13 and 30 TRIPS. It does not refer to an unreasonable prejudice. The WTO Panel inferred from this omission ‘a lesser standard of regard for the legitimate interests of the owner of the trademark.’¹⁰⁸ Most importantly, however, Article 17 itself gives the example of ‘fair use of descriptive terms’. As the words ‘such as’ indicate, this example may be supplemented with other forms of fair use. The provision can hardly be understood to preclude the identification of further types of fair use at the national level on the basis of open-ended factors.

2. Need for Fair Use

During the last decades, the realm of trademark law has been extended continuously. Several new types of marks, such as colour per se, shape marks, sound marks and multimedia signs, have been recognized and accepted for registration.¹⁰⁹ In addition, the exclusive rights of the trademark owner have been broadened constantly. This expansion may be less prominent in cases of similarity between the signs and the products involved. The current scope of protection in the area of similarity covers direct product confusion as well as indirect confusion with regard to affiliation and sponsorship. Highly distinctive marks enjoy broader protection. The showing of a likelihood of confusion, however, still constitutes the central requirement to be fulfilled before protection can be obtained.¹¹⁰

¹⁰⁷ See WTO Document WT/DS174/R, para. 7.650-7.651, based on a complaint by the US and the twin report WTO Document WT/DS290/R dealing with a complaint by Australia. As to the interpretation of Art. 17 TRIPS, the reports are identical in substance. Following references concern the report on the US complaint. For comments on the report, see Senftleben, *supra* note 52.

¹⁰⁸ See WTO Panel, *ibid.*, para. 7.671.

¹⁰⁹ Cf. I. Lewalter/P.T. Schrader, *Die Fühlmarke*, GRUR 2005, p. 476; F. Hauck, *Aktuelle Entwicklungen bei der Eintragung von Farbmarken*, GRUR 2005, p. 363; A. Kur, *Alles oder Nichts im Formmarkenschutz?*, GRUR International 2004, p. 755; A. Bouvel, *Qu’importe le flacon... Le droit des marques malmené par les emballages*, Propriétés Intellectuelles 2004, p. 863; R. Arnet, *Markenschutz für Formen, sic!* 2004, p. 829; J. Pagenberg, *Trade Dress and the Three-Dimensional Marks – The Neglected Children of Trademark Law?*, IIC 35 (2004), p. 831; M. Bölling, *Der EuGH und die abstrakte Farbmarke – Von der bewussten Entwertung einer Markenform*, Markenrecht 2004, p. 384; S. Bingener, *Das Wesen der Positionsmarke oder Wo die Positionsmarke hingehört*, Markenrecht 2004, p. 377; A. Firth/E. Gredley/S.M. Maniatis, *Shapes as Trade Marks: Public Policy, Functional Considerations and Consumer Perception*, EIPR 2001, p. 86.

¹¹⁰ See ECJ, November 11, 1997, case C-251/95, *Puma/Sabel*. The confusion requirement in similarity cases has been confirmed in ECJ, June 18, 2009, case C-487/07, *L’Oréal/Bellure*, para. 59. Cf. G. Würtenberger, *Risk of*

In the area of sign and product identity, however, there is a trend towards absolute protection that does no longer depend on a likelihood of confusion. In *L'Oréal/Bellure*, the ECJ attached particular importance to the formula of absolute protection laid down in recital 11 of the EC Trademark Directive.¹¹¹ According to the Court, absolute protection implies that, in cases of sign and product identity, a likelihood of confusion does not constitute 'the specific condition for such protection'.¹¹² This holding goes beyond Article 16(1) TRIPS that provides only for a presumption of a likelihood of confusion in double identity cases. The ECJ abandons the confusion requirement altogether and, instead, requires that a third party's use of a trademark affect or be liable to affect the functions of the trademark. These functions, however, are understood to

'...include not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising.'¹¹³

With protection ranging from source identification to investment in brand image, this broad definition offers various possibilities of establishing a conflict.¹¹⁴ The only remaining hurdle seems to be the fact that the ECJ, so far, insists on some detriment to the trademark. Taking unfair advantage of a trademark's functions is insufficient to satisfy the function test.¹¹⁵ Nevertheless, the mere showing of identity between signs and products will be decisive in many cases. As a result, EC trademark rights in the area of double identity come very close to the exclusive rights granted in copyright and patent law, where mere use of protected subject matter may amount to infringement.

Even more remarkable steps to broaden trademark protection, however, have been taken in the area of protection against dilution. Trademark rights in this field are becoming instruments

Confusion and Criteria to Determine the Same in European Community Trade Mark Law, EIPR 2001, p. 20. For a comparison with the approach taken in the US, see J.T. McCarthy, 'Dilution of a Trademark: European and United States Law Compared', *The Trademark Reporter* 94 (2004), p. 1163.

¹¹¹ See Directive 2008/95/EC. Recital 11 reads as follows: 'The protection afforded by the registered trade mark, the function of which is in particular to guarantee the trade mark as an indication of origin, should be absolute in the case of identity between the mark and the sign and the goods or services. The protection should apply also in the case of similarity between the mark and the sign and the goods or services. It is indispensable to give an interpretation of the concept of similarity in relation to the likelihood of confusion...'

¹¹² See ECJ, June 18, 2009, case C-487/07, *L'Oréal/Bellure*, para. 59.

¹¹³ See ECJ, *ibid.*, para. 58.

¹¹⁴ Cf. F. Hacker, *Funktionenlehre und Benutzungsbegriff nach 'L'Oréal'*, *Markenrecht* 2009, p. 333; S. Völker/G. Elskamp, *Die neuen Markenfunktionen des EuGH, Wettbewerb in Recht und Praxis* 2010, p. 64; K.-H. Fezer, *Markenschutzfähigkeit der Kommunikationszeichen (§§ 3 und 8 MarkenG) und Kommunikationsschutz der Marken (§§ 14 und 23 MarkenG)*, *Wettbewerb in Recht und Praxis* 2010, p. 165. With regard to the earlier focus of the ECJ on the 'essential' function of source identification, see I. Simon, *How Does 'Essential Function' Doctrine Drive European Trade Mark Law*, *IIC* 36 (2005), p. 401.

¹¹⁵ See the analysis concerning the advertising function in ECJ, March 23, 2010, cases C-236/08 to C-238/08, *Google/Louis Vuitton*, para. 92: '...in the case where that use adversely affects the proprietor's use of its mark as a factor in sales promotion or as an instrument of commercial strategy.' Other language versions, such as the Dutch ('afbreuk doen'), French ('porter atteinte') and German ('beeinträchtigen') versions, are clearer on that point. Cf. A. Ohly, comment on BGH, January 22, 2009, case I ZR 125/07, '*Bananabay*', *Juristenzeitung* 2009, p. 856 (859).

for the exploitation of brand image.¹¹⁶ Protection against dilution overrides the principle of specialty. It can be invoked against use of competing signs for similar and dissimilar products alike. To enter this area of protection, it is sufficient to show a mere risk of association – the establishment of a link between the mark and the competing sign in the minds of consumers.¹¹⁷ This entails the broadening of the notion of trademark use. In dilution cases, even decorative use of a sign that triggers associations with a protected mark may be qualified as relevant trademark use falling under the exclusive rights of the trademark owner.¹¹⁸ In certain trademark systems, such as the EC system and those of its Member States, the threshold for eligibility for anti-dilution protection, moreover, is remarkably low. The ECJ accepts niche reputation. It is sufficient that a significant part of the target consumer group in a substantial part of an EC Member State knows the mark.¹¹⁹ This low standard is in line with the approach taken at the international level in the WIPO Joint Recommendation Concerning the Protection of Well-Known Marks.¹²⁰

Besides the broadening of trademark protection, exposure to technological developments justifies the consideration of a fair use approach in the field of trademark law. The trademark system is increasingly challenged by developments in the digital environment.¹²¹ Difficult questions have already arisen, for instance, with regard to the use of trademarks for the purpose of keyword advertising.¹²²

¹¹⁶ See M.R.F. Senftleben, *The Trademark Tower of Babel – Dilution Concepts in International, US and EC Law*, IIC 40 (2009), p. 45; L. Bently/G. Davis/J. Ginsburg (eds.), *Trade Marks and Brands – An Interdisciplinary Critique*, Cambridge: Cambridge University Press 2008; J. Moskin, ‘Victoria’s Big Secret: Whither Dilution Under the Federal Dilution Act?’, *The Trademark Reporter* 93 (2004), p. 842; K.-H. Fezer, *Entwicklungslinien und Prinzipien des Markenrechts in Europa – Auf dem Weg zur Marke als einem immaterialgüterrechtlichen Kommunikationszeichen*, GRUR 2003, p. 457; F. Pollaud-Dulian, ‘*Marques de renommée – Histoire de la dénaturation d’un concept*’, *Propriétés intellectuelles* 2001, p. 43; M. Strasser, ‘*The Rational Basis of Trademark Protection Revisited: Putting the Dilution Doctrine into Context*’, *Fordham Intellectual Property, Media & Entertainment Law Journal* 10 (2000), p. 375; R.S. Brown, ‘*Advertising and the Public Interest: Legal Protection of Trade Symbols*’, *Yale Law Journal* 108 (1999), p. 1619. The broad approach to trademark functions in *L’Oréal/Bellure* seems to confirm this trend. With the inclusion of ‘communication, investment or advertising’, the ECJ recognizes that trademarks do not simply serve the objective to identify a given commercial source. They have become central instruments for the communication with consumers.

¹¹⁷ See ECJ, October 23, 2003, case C-408/01, *Adidas/Fitnessworld Trading*. See also ECJ, *supra* note 112.

¹¹⁸ See A. Kur, *Confusion Over Use? – Die Benutzung „als Marke“ im Lichte der EuGH-Rechtsprechung*, GRUR International 2008, p. 1.

¹¹⁹ See ECJ, 14 September 1999, case C-375/97, *General Motors/Yplon* (‘Chevy’); ECJ, October 6, 2009, case C-301/07, *Pago/Tirolmilch*. Cf. Senftleben, *supra* note 115, 54 and 74-75.

¹²⁰ See WIPO Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks, WIPO: Geneva 2000, online available at www.wipo.int/about-ip/en/development_iplaw/. Cf. Senftleben, *supra* note 115, 51-53; A. Kur, *Die WIPO-Vorschläge zum Schutz notorisch bekannter und berühmter Marken*, GRUR 1999, p. 866.

¹²¹ See WIPO Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet, WIPO: Geneva 2001, online available at www.wipo.int/about-ip/en/development_iplaw/. Cf. D. Seichter, *Markenrecht und Internet*, *Markenrecht* 2006, p. 375; C. Wichard, *The Joint Recommendation Concerning Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet*, in: J. Drexler/A. Kur (eds.), *Intellectual Property and Private International Law*, IIC Studies 24, Oxford: Hart Publishing 2005, p. 257; A. Kur, *Die WIPO-Empfehlungen zur Benutzung von Marken im Internet*, GRUR International 2001, p. 961.

¹²² See ECJ, March 23, 2010, cases C-236/08 to C-238/08, *Google/Louis Vuitton*. Cf. A. Ohly, *Keyword-Advertising auf dem Weg von Karlsruhe nach Luxemburg*, GRUR 2009, p. 709; R. Knaak, *Keyword Advertising – Das aktuelle Key-Thema des Europäischen Markenrechts*, GRUR International 2009, p. 551; C. Well-Szönyi, *Adwords: Die Kontroverse um die Zulässigkeit der Verwendung fremder Marken als Schlüsselwort in der französischen Rechtsprechung*, GRUR International 2009, p. 557; G. Engels, *Keyword Advertising – Zwischen beschreibender, unsichtbarer und missbräuchlicher Verwendung*, *Markenrecht* 2009, p.

3. Existing Approaches

Law makers in several jurisdictions have been alert to the need for flexible limitations in the area of trademark protection against dilution. After the US Supreme Court had required ‘a showing of actual dilution, rather than a likelihood of dilution’ in *Moseley vs. V Secret Catalogue*,¹²³ the 2006 Trademark Dilution Revision Act amended the anti-dilution provisions in the US Lanham Act.¹²⁴ The adoption of new anti-dilution legislation was accompanied by the introduction of a statutory, open-ended fair use provision focusing on breathing space for comparative advertising and freedom of speech without excluding other forms of fair use.¹²⁵

EC legislation concerning dilution achieves similar results by providing for a defence of ‘due cause’. Article 5(2) of the EC Trademark Directive 2008/95 offers EC Member States the freedom to provide for anti-dilution protection

‘...where use of [a sign similar to a trademark having a reputation] without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.’

This provision made its way into the national trademark legislation of all Member States. As a result, the flexible ‘due cause’ defence can be used by national courts to counterbalance the broad grant of protection. The case ‘Lila Postkarte’ of the German Federal Court of Justice, for instance, concerned the marketing of postcards that alluded ironically to trademarks and advertising campaigns of the chocolate producer Milka. On purple background corresponding

289; M. Schubert/S. Ott, *AdWords – Schutz für die Werbefunktion einer Marke?*, *Markenrecht* 2009, p. 338; O. Sosnitza, *Adwords = Metatags? Zur marken- und wettbewerbsrechtlichen Zulässigkeit des Keyword Advertising über Suchmaschinen*, *Markenrecht* 2009, p. 35; Ch. Gielen, *Van adwords en metatags*, in: N.A.N.M. van Eijk et al. (eds.), *Dommering-bundel*, Amsterdam: Cramwinckel 2008, p. 101; O. van Daalen/A. Groen, *Beïnvloeding van zoekresultaten en gesponsorde koppelingen. De juridische kwalificatie van onzichtbaar merkgebruik*, *BMM Bulletin* 2006, p. 106.

¹²³ See Supreme Court of the United States of America, March 4, 2003, *Moseley vs. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003). Cf. Moskin, *Victoria’s Big Secret: Wither Dilution Under the Federal Dilution Act*, *Trademark Reporter* 93 (2004), 842-859.

¹²⁴ See Trademark Dilution Revision Act of 2006 (H.R. 683) amending the US Trademark Act of 1946 (15 U.S.C. 1125). With regard to the required proof of dilution, this new legislation clarifies that protection against dilution is to be granted ‘regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.’ Cf. B. Beebe, *A Defense of the New Federal Trademark Antidilution Law*, *Fordham Intellectual Property, Media & Entertainment Law Journal* 16 (2006), 1143.

¹²⁵ Section 43(c)(3) of the US Lanham Act, as amended, reads as follows:

‘(3) EXCLUSIONS – The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:

- (A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services, including use in connection with –
 - (i) advertising or promotion that permits consumers to compare goods or services; or
 - (ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.
- (B) All forms of news reporting and news commentary.
- (C) Any noncommercial use of a mark.’

For a description of the situation under the former US Federal Trademark Dilution Act, see M.K. Cantwell, *Confusion, Dilution and Speech: First Amendment Limitations on the Trademark Estate: An Update*, *The Trademark Reporter* 94 (2004), p. 549. With regard to common law fair use defences in the US, see J. Moskin, *Frankenlaw: The Supreme Court’s Fair and Balanced Look at Fair Use*, *Trademark Reporter* 95 (2005), p. 848.

to Milka's abstract colour mark, the postcard sought to ridicule the nature idyll with cows and mountains that is evoked in Milka advertising. It showed the following poem attributed to 'Rainer Maria Milka':

‘Über allen Wipfeln ist Ruh,
irgendwo blökt eine Kuh.
Muh!’¹²⁶

Assessing this ironic play with Milka insignia, the Court first confirmed the broad scope of protection. It held that for the use of Milka trademarks to constitute trademark use in the sense of Article 5(2) of the Trademark Directive, it was sufficient that the postcard called to mind the well-known Milka signs.¹²⁷ Even though being decorative, the use in question, thus, gave rise to the question of trademark infringement. Accordingly, the Court embarked on a scrutiny in the light of the infringement criteria of detriment to distinctive character or repute, and the taking of unfair advantage. At this stage, however, Milka could not succeed. In line with the EC Directive, the German Trademark Act offers the defence of ‘due cause’. Weighing Milka's concerns about a disparagement of the trademarks against the fundamental guarantee of the freedom of art, the Court concluded that the freedom of art had to prevail in light of the ironic statement made with the postcard.¹²⁸ The use of Milka trademarks was found to have taken place with due cause.

These examples of flexible fair use defences in US and EC trademark legislation show that measures are taken to counterbalance broad protection in the field of trademark dilution. However, comparable steps have not been taken to limit trademark protection in cases of sign and product identity. As explained above, recent developments in the EC have led to absolute protection in double identity cases irrespective of whether a likelihood of confusion can be presumed. The EC provision governing this area is Article 5(1)(a) of the Trademark Directive. It vests the trademark owner with the right to prevent third parties from using in trade

‘...any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered.’

In this provision, not only the requirement of (presumed) confusion is sought in vain. Article 5(1)(a) also fails to provide for the ‘due cause’ defence that applies in the area of EC protection against dilution. This lack of balancing tools may become problematic soon. In the case of a trademark parody falling under Article 5(1)(a), such as T-shirts or cartoons parodying the trademarked Mickey Mouse drawing,¹²⁹ it is unclear how the ECJ would provide for sufficient breathing space for freedom of speech. In principle, the approach taken by the ECJ leaves room for a finding that the use in question is not actionable under Article

¹²⁶ ‘It is calm above the tree tops, somewhere a cow is bellowing. Moo!’ See Federal Court of Justice (Bundesgerichtshof), February 3, 2005, case I ZR 159/02, GRUR 2005, p. 583, ‘Lila Postkarte’. Cf. C. Born, Zur Zulässigkeit einer humorvollen Markenparodie – Anmerkungen zum Urteil des BGH ‘Lila Postkarte’, GRUR 2006, p. 192.

¹²⁷ See Bundesgerichtshof, *ibid.*, p. 584.

¹²⁸ See Bundesgerichtshof, *ibid.*, p. 584-585. For a further case in which freedom of speech prevailed over trademark protection, see German Federal Court of Justice, March 11, 2008, case VI ZR 7/07, Neue Juristische Wochenschrift 2008, p. 2110, ‘Gen-Milch’. Cf. Sakulin, *supra* note 106; Geiger, *supra* note 106.

¹²⁹ See the international Madrid registration no. 296478 relating, among various other products, to printed matter (class 16) and clothing (class 25). The particulars of the registration can be consulted online at <<<http://www.wipo.int/ipdl/en/madrid/search-struct.jsp>>>.

5(1)(a) because it does not affect any of the protected functions of a trademark. The room to manoeuvre created in this way, however, must not be overestimated. As pointed out above, the circle of relevant functions has been drawn broadly in *L'Oréal/Bellure*. It includes communication, investment and advertising. A biting parody, however, will inevitably impact on the way in which consumers perceive the target trademark. It may have a corrosive effect on a favourable trademark image that is the result of substantial investment in advertising and product control.¹³⁰

The described dilemma has already arisen with regard to commercial speech. Harm to the investment and advertising function of a trademark can flow from comparative advertising that sheds new light on a trademark by informing consumers about better offers in the marketplace. The current, inflexible framework established by Article 5(1)(a) does not offer breathing space in this case. As the product comparison may interfere with the trademark communication initiated by the owner, affect prior investment in a favourable trademark image and reduce the trademark's advertising power, the verdict of infringement seems inevitable under Article 5(1)(a), even if the requirement of detriment to trademark functions is applied.¹³¹ In *L'Oréal/Bellure*, the ECJ nonetheless managed to escape the inflexible rules on sign and product identity by invoking the EC Comparative Advertisement Directive.¹³² Using the criteria for permissible comparative advertising as an external balancing tool, the Court arrived at the conclusion that a case of infringement would only arise where a trademark was used for the purpose of comparative advertising without all the requirements stated in the Comparative Advertisement Directive being satisfied.¹³³

To add flexibility to the EC trademark system in double identity cases, the ECJ, thus, had to resort to the rules on comparative advertising. Against this background, the function analysis developed by the Court under Article 5(1)(a) of the Trademark Directive can hardly be qualified as a sufficient safeguard of artistic and commercial freedom of speech.¹³⁴ Instead, EC trademark law seems incapable of providing the necessary room to manoeuvre. The constant broadening of protection has created a need for fair use provisions capable of counterbalancing EC trademark protection in the area of sign and product identity. The 'due cause' defence applied in dilution cases could serve as a model for satisfying this need.

¹³⁰ In the copyright fair use case *Campbell vs. Acuff Rose*, the US Supreme Court solved this problem by stating that 'when a lethal parody, like a scathing theater review, kills demand for the original, it does not produce a harm cognizable under the Copyright Act.' See *Campbell vs. Acuff-Rose*, 510 US 569 (1994), II D. A similar ECJ finding of fair use would be necessary to safeguard parody under Article 5(1)(a) of the EC Trademark Directive.

¹³¹ The mere presumption of confusion in double identity cases would offer more flexibility. In cases of comparative advertising meeting the requirements stated in the EC Misleading and Comparative Advertisement Directive 2006/114/EC of December 12, 2006, it could be concluded that the presumption has been rebutted.

¹³² The Court dealt with the Misleading Advertisement Directive 84/450 of September 10, 1984, as amended by the Comparative Advertisement Directive 97/55 of October 6, 1997. These two Directives are now consolidated in the Misleading and Comparative Advertisement Directive 2006/114/EC of December 12, 2006.

¹³³ See ECJ, June 18, 2009, case C-487/07, *L'Oréal/Bellure*, para. 54 and 65.

¹³⁴ It is doubtful whether the breathing space created in this way is sufficient to satisfy freedom of speech concerns. See Ohly, *supra* note 121, 711-712; A. Kur/L. Bently/A. Ohly, *Sweet Smells and a Sour Taste – the ECJ's L'Oréal Decision*, Max Planck Institute for Intellectual Property, Competition and Tax Law Research Paper Series No. 09-12, online available at <http://ssrn.com/abstract=1492032>.

4. Conclusion

International trademark law does not prevent national law makers from introducing fair use limitations. The international framework of protection is even more flexible than in the field of copyright and patents. Given the constant broadening of trademark protection during the last decades, and the increasing impact of Internet technology, it is advisable to use this flexibility at the national level. In this context, examples of current EC and US legislation show that fair use elements have already been introduced to counterbalance protection against dilution. In the area of sign and product identity, recent extensions of protection in the EC necessitate the adoption of similar fair use solutions.

VII. Conclusion

Fair use has become a horizontal issue in intellectual property law. As the analysis has shown, there are important reasons for the adoption of flexible fair use defences in copyright, patent and trademark law. The constant expansion of protection in these systems, and constant exposure to technological challenges, necessitate the introduction of flexible counterbalances that safeguard user freedoms. In copyright law, an open-ended fair use defence offers the breathing space necessary for satisfying social, cultural and economic needs, particularly in the participative web 2.0. Transformative user-generated content can be encouraged. New Internet industries is given room to flourish. In patent law, fair use provisions can be employed to enhance flexibility in the area of experimental use. Follow-on innovation in the fields of software and biotechnology can be fostered in this way. The use of research tools can be facilitated. In trademark law, fair use is required to counterbalance brand image protection against dilution, and the grant of absolute protection in cases of sign and product identity. A fair use defence would offer sufficient flexibility for freedom of speech, including commercial speech in cases of comparative advertising.

The continuous expansion of IP protection in recent decades, however, does not only create a need for fair use within individual IP domains. In addition, it is to be considered that the expansion of protection broadened overlaps between the different branches of IP.¹³⁵ Software patents create an overlap with copyright protection of computer programs. The recognition of new types of marks, such as shape and sound marks, broadens the overlap between copyright and trademark protection.

Hence, there is not only a need for fair use counterbalances within individual IP protection regimes but also a growing need for flexible balancing tools that can be applied across these individual regimes. A network of corresponding fair use limitations in different IP domains can serve as a means to safeguard the inner consistency of the IP system when it comes to protection overlaps. On the basis of horizontal, open-ended fair use legislation, a form of unauthorized use that is permitted in one protection regime can be safeguarded in other, overlapping systems as well. For instance, trademark fair use provisions, such as the EC defence of ‘due cause’, can ensure that a Mickey Mouse parody complying with copyright standards can also be declared permissible in the overlapping field of trademark protection. A

¹³⁵ For a description of this trend and an overview of current problems, see Derclaye/Leistner, *supra* note 8; Cruquenaire/Dussollier, *supra* note 8; A. Kur, Funktionswandel von Schutzrechten: Ursachen und Konsequenzen der inhaltlichen Annäherung und Überlappung von Schutzrechtstypen, in: G. Schricker/Th. Dreier/A. Kur (eds.), *Geistiges Eigentum im Dienst der Innovation*, Baden-Baden: Nomos 2001, p. 23; P.B. Hugenholtz, *Over cumulatie gesproken*, Bijbald bij de intellectuele eigendom 2000, p. 240

patent fair use defence that supports follow-on innovation can help to ensure that copyright limitations allowing the decompilation of computer programs to achieve interoperability are not eroded when the program concerned also enjoys patent protection. The growth of protection overlaps is thus an additional argument for the introduction of fair use defences, and an additional confirmation that fair use has become a horizontal issue in IP law.

To safeguard the inner consistency of the IP system, fair use defences in different protection regimes must correspond to each other. They should function as a network allowing consistent decisions on forms of unauthorized use that are exempted in one protection system when it comes to overlaps with other systems. Common ground for such a fair use network became visible during the present analysis: all fair use defences in IP law should serve the overarching objective of fostering the use of pre-existing intellectual resources for the purpose of creating new material. This objective is central to cyclic innovation systems, such as copyright and patent law. Not surprisingly, the discussion on more flexible limitations in these systems focuses on transformative use and experimental use. Market transparency systems, such as trademark law, do not seek to encourage the reuse of existing material. Nonetheless, the transformative/experimental use rationale is equally applicable. Fair use ensures that the stable distribution of intellectual resources in these systems, like the indefinite protection of a trademark for one individual trader, does not frustrate cyclic innovation that is central to other systems. In case of a short melody enjoying cumulative copyright and trademark protection, a trademark fair use defence could be applied, for instance, to exempt use of the melody for cultural purposes after the expiry of copyright protection.¹³⁶

¹³⁶ With regard to the problems raised by cumulative copyright and trademark protection, see M.R.F. Senftleben, *Der kulturelle Imperativ des Urheberrechts*, in: M. Weller/N.B. Kemle/Th. Dreier (eds.), *Kunst im Markt – Kunst im Recht*, Baden-Baden: Nomos 2010; A. Ohly, *Areas of Overlap Between Trade Mark Rights, Copyright and Design Rights in German Law*, *GRUR International* 2007, p. 704; M.R.F. Senftleben, *De samenloop van auteurs- en merkenrecht – een internationaal perspectief*, *Tijdschrift voor auteurs-, media- en informatierecht* 2007, p. 67; D.W.F. Verkade, *The Cumulative Effect of Copyright Law and Trademark Law: Which Takes Precedence?*, in: J.J.C. Kabel/G.J.H.M. Mom (eds.), *Intellectual Property and Information Law – Essays in Honour of Herman Cohen Jehoram*, Den Haag/London/Boston: Kluwer 1998, p. 69.